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# Higher Secondary Book-Keeping

*AND*

# Accounts

**[Principles & Practices of Advanced Accountancy]**

**PART I**

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**(PRINCIPLES & PCACTICES OF ADVANCED ACCOUNTANCY)**
**Part I, For Class XI**

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## PREFACE TO THE FIFTH EDITION

We have great pleasure in placing before the readers the *Fifth revised edition* of our book Hr. Sec. Book keeping & Accounts. It is a matter of great satisfaction for authors that the Third edition of the book is exhausted within a very short period of less than a year.

In this edition book has been thoroughly revised and updated. Many new illustrations and exercises from the latest question papers have also been added. Attempts have been made to see that the answer to the exercises are correctly printed. However, if any lapses are found, the readers may kindly point them out to the authors, who will feel highly obliged.

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## FIRST EDITION

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*—The Authors*

# RESTRUCTURED SYLLABUS IN PRINCIPLES AND PRACTICES OF ADVANCED ACCOUNTANCY
## CLASS XI

**One Paper**

1. **Accounting** : Meaning and Objects. The Nature of Business Income—*Merchandising Cost.* Gross Profit—expenses of doing business—Net Income.

   Financial Position Business entity concept. Assets Liabilities —Capital—Net worth : Accounting Equation—Balance Sheet.

2. **Accounts and the Ledger** : Account-Ledger Form of an Account Debit and Credit ; Classification of Accounts, Balancing an account, Revenue and Expenses Accounts.

3. **Recording Transactions** : Journalising, sub-division of Journal-need for sub-division-posting from the journals, and subsidiary books.

4. **Trial Balance and Final Accounts** : *Purpose of Trial Balance*—Locating errors. Rectification of Errors. Closing entires. Simple Profit and Loss Account and Balance Sheet.

5. **Accounting for Cash** : **Bank and Cheques** : Three Columns Cash Book. Bank Reconciliation Statements. Petty Cash and Imprest system.

6. **Measurement of Business Income** : Matching Cost & Revenue (*a*) Accurals and Deferrls (*b*) Cost Expiration-Depreciation (*c*) Bad Debts (*d*) Closing inventory. Final Accounts for a merchandiser and as Manufacturer.

8. **Methods of Presenting Final Accounts**—Current Assets and Liabilities. Fixed Assets and Liabilities. Other Assets & Liabilities.

9. **Accounting Postulates.** Concepts and Conventions.

10. **Accounting for Depreciation** : Need and significance of Depreciation. Methods of Providing for depreciation-straight line & diminishing Balance.

11. **Accounting for Bills of Exchange** : Bills Receivable and Payable : Acceptance, Discounting, Dishonour and Retiring of of Bills and Renewal of Bills.

12. **Accounting for Non-Profit Organisation** : Receipts and Payments and Income and Expenditure Accounts.

13. **Single Entry System** : Preparation of accounts from uncomplete records.

## CONTENTS

# 1

# Accounting : Meaning and Objects

*"Accounting is the language of Business."*

**Definition of Accounting**

"Accounting is a science of recording and classifying the business transactions and events, primarily of a financial character and the art of making significant summaries, analysis and interpretations of these transactions and events and communicating the results to persons who must make decisions or form judgements."
(Smith and Ashburne)

It is very clear from the above definition that accounting is a *Science* in as much as it lays down directive principles and rules for recording and classifying all the business transactions. It is the *art* of accounting which is reflected in the process of preparation of accounting statements, its analysis and interpretations. These statements communicate to the owner(s) of the business as also the outside world (in the business language) enabling them to understand intelligibly the affairs—financial or otherwise—of any business unit.

**Science or Art**

The Committee on terminology of the American Institute of Certified Public Accountants has defined, "Accounting is the art of recording, classifying and summarising in a significant manner and in terms of money transactions and events which are, in part at least, of a financial character and interpreting the results thereof."

According to this definition accounting is only an art and not a science. This contention is held because of the fact that the principles and rules of accounting are not based on general truths and natural laws like any physical or mathematical science. Such a contention seems erroneous as it will keep out all the so-called social sciences, from the category of science. Accounting has its own laws which apply equally well in similar circumstances for similar business transactions.

However, most of the persons working in the field of accountancy, accept it more as an art rather than as a science because of the fact that it is the art side of accounting which has assumed greater importance in the practical life of the businessmen.

The preparation and presentation of financial statements and interpretations thereof with specific purposes in view—what is popu-

larly called as "window dressing"—have more prominently emphasised and to a greater extent establised it as an art.

**Book-Keeping, Accounting and Accountancy**

The techniques of recording all the business transactions in the appropriate books of accounts and preparation of financial statements therefrom, is called Book-Keeping. The term is very often used as a synonym of Accounting. However, accounting is a term with a much wider connotation. It includes within its fold, more importantly, the interpretative aspects of the work done by Book-Keeping in coming to certain conclusions and taking business decisions. At best Book-Keeping is perhaps the most important base in accounting.

Quite often students get confused while using the two words —Accounting and Accountancy. No doubt, sometimes they are interchanged but there is quite a line of demarcation between their use which should better be understood. The word *accountancy* is used for the *profession* of accountants—who do the work of *accounting*. Accounting is the work to record all business transactions in the form of various accounts and financial statements. As such the word accounting tries to explain the nature of the work of the accountants and the word accountancy refers to the profession of such persons.

**Objects of Accounting**

The main purpose of accounting is to present the real financial position of a running business by furnishing financial data concerning a business enterprise, compiled and presented to meet the needs of the management, investors and the public. The objectives of accounting have been clarified by Lawrence H. C. Malchaman and Albert Slavin when they define accounting "as the process of recording the changes, in terms of increases and decreases, in property or in the rights to property and the analysis and interpretations of financial transactions." R.N. Anthony calls "Accounting-system as a means of collecting, summarising, analysing and reporting in monetary terms, information about the business." According to Harold Bierman and Allan R. Dreblin the purpose of accouting is to identify, measure, record and communicate the financial information of any business concern.

Briefly speaking a proper system of accounting should provide readily the following information :—

(*i*) Availability of Capital and its form ;

(*ii*) Assets and stock position ;

(*iii*) Purchases and Sales ;

(*iv*) List of debtors and creditors ;

(*v*) Gross and net profits or losses :

(*vi*) Cost incurred for carrying out various business activities.

**Functions of Accounting**

As stated by *Grant and Bell*, "An accounting system serves a broad spectrum of purposes. Some important ones can be described in functional terms as follows :

(*i*) Providing information desired by stock-holders and creditors.

(*ii*) Providing information for managerial use.

(*iii*) Keeping track of assets and liabilities.

(*iv*) Determining tax liabilities.

(*v*) Developing information required by regulatory laws."

**Branches of Accounting**

The science and art of accounting has grown very much and assumed wider dimensions. Availability of specialised knowledge of different aspects of accounting has become almost a 'must' for any big business concern. The entire job of accounting is often divided into three branches. Each being important by itself and also as complimenting the other to serve the same main aim of earning higher profits. These branches are :—

1. *Financial Accounting* : The main purpose of this branch of accountancy is to ascertain the financial position of business at the end of a certain period. That is, to find out whether the firm has earned profits or incurred losses.
2. *Cost Accounting* : Its main purpose is to ascertain the cost of production of goods and cost of running different departments to enable the management to fix the selling price.
3. *Management Accounting* : The main object of this branch is to provide all the relevant information that may be required by the management to take decisions in respect of various aspects of running the business enterprise

**Basic Terms used in Accounting**

(Hereunder are given some terms which are very frequently used in accounting system and they have certain specific meanings. Once these terms are understood clearly by the readers, it would be very convenient for them to understand clearly the contents of the chapters that would follow.)

**Basic Terms Explained**

1. *Assets* : "The entire property of all kinds possessed by or owing to a person or organisation is called assets". "Assets are valuable resources owned by a business and acquired at a measurable money cost". They may be :—

(*a*) *Fixed Assets* : They are acquired for use and not for resale, *e.g.*, land, machinery, furniture, etc

(*b*) *Floating assets* : Assets whose value is constantly changing as the business proceeds like stock, debtors, etc.

(*c*) *Fictitious assets* : Assets of no real value but included in

the balance sheet for legal or technical reasons, *e g.*, preliminary expenses.

(*d*) *Intangible assets* : Assets that can not be normally sold in the open market like goodwill.

(*e*) *Liquid assets* : Assets that can be easily converted into cash, like Bank A/c, Bills receivable, etc.

(*f*) *Wasting assets* : Those fixed assets which gradually depreciate in value with its use, *e.g.* building, machinery, etc.

2. *Capital.* The term may mean different things for different persons. To an ordinary man it means money invested To a businessman, it is the excess of assets over his liabilities or his available resources for carrying on the business. To an accountant it is the owner's equity. They are usually of the following kinds :

(*a*) *Fixed capital* : Capital invested in or represented by fixed assets.

(*b*) *Circulating capital* : Capital in the form of floating assets.

(*c*) *Working capital* : The excess of current assets over current liabilities.

3. *Capital expenditure* : Expenses that are not chargeable against profit but incurred for improving or acquiring fixed assets.

4. *Capital Reserve* : A reserve which results on account of capital gains, *e.g.*, when the value of fixed assets are enhanced in books of accounts.

5. *Credit* : Means 'trust'. Giving credit means to deliver goods or some service for payment to be made at some later date.

6. *Depreciation* : The fall in value of a fixed asset due to its wear and tear. There are various methods for calculating depreciation which will be dealt with at the appropriate time.

7. *Discount* : There are two types of discount :

(*a*) *Cash discount* : An allowance made to encourage prompt payment or before the expiration of the period allowed for credit.

(*b*) *Trade discount* : A deduction from the gross or catalogue price allowed to traders who buy to sell again.

8. *Gross profit* : The difference between the selling price and the cost price of goods, before the deduction of any expenses incurred in selling goods.

9. *Net profit* : The profit that remains after deducting all the expenses from the gross profit. It represents the real gain of the business.

10. *Imprest system* : The periodical reimbursement of expenditure so as to bring the allocation at the commencement of each new period up to the original or imprest amount. The system is used for petty cash.

11. *Insolvent* : The inability of a business or person to pay his debts as they become due. The condition in which the liabilities exceed assets.

12. *Solvent* : One who is able to pay one's debts as they become due.

13. *Liabilities* : Debts or other obligations for which the business is responsible.

14. *Petty cash* : A ready sum of money kept for the special purpose of meeting miscellaneous expenses of small amount.

15. *Reserve* : An amount set aside out of the profits or other surpluses and designed to meet contingencies.

16. *Revenue* : Income of a recurring nature from any source.

17. *Reserve expenditure* : Expenditure chargeable against profit as being incurred in earning it, and not like capital expenditure adding to the value of fixed assets.

18. *Voucher* : A document or other form of evidence attesting the performance of an alleged act such as payment, receipt of goods, etc.

19. *Write off* : To cancel a debt, thus treating it as if it were paid. It also means the process of reducing the value of an asset.

20. *Receipt.* A written acknowledgement of (*i*) payment of money, or (*ii*) delivery of goods.

21. *Payee* : One to whom money is payable.

22. *Equity* : A claim which can be enforced against the assets of a firm is called equity. There are two types of equities of the firm :

(*i*) Owner's equity or capital or proprietorship, and
(*ii*) Creditor's equity.

**Financial Accounting**

In this book the word 'accounting' has been used to denote financial accounting. The object of financial accounting is to find out the results of business transactions during a fixed period and to tell about the financial position of the business For this purpose financial statements are prepared. Financial statements mean such original documents prepared by the accountant as give information about the financial position of the business. These include two statements prepared at the end of the year—(*i*) Profit and Loss Account or Income Statement, and (*ii*) Balance Sheet or Position Statement.

It is necessary to make a regular record of all business transactions to achieve all the objectives of accountancy. The art of recording business transactions clearly and according to the principle of accountancy is called book-keeping. According to *Prof Carter*

"Book-keeping is the science and art of correctly recording in books of accounts all these business transactions that result in the transfer of money or money's worth". Book-keeping is the base of accountancy. Thus it would be reasonable to say that Accountancy is a wider term while book-keeping is its necessary and important part.

**Difference between Book-keeping and Accountancy**

| *Book-keeping* | *Accountancy* |
|---|---|
| 1. In book-keeping recording of financial transactions in different account books is taught. | 1. In accountancy the errors of accounts and their rectification through adjustments are taught. |
| 2. This is the primary stage of maintaining accounts and so it is not possible to reach at any conclusion. | 2. The work of accountancy starts at secondary stage and finishes at the last stage. |
| 3. In book-keeping transactions are recorded according to the principles of accountancy. | 3. While accountancy determines its own principles. |
| 4. The work of book-keeping is done by the junior staff and their responsibility is comparatively less. | 4. The work of accountancy is done by the senior officers and they have to share higher responsibility. |
| 5. In book-keeping accounts are maintained in the books but conclusions cannot be derived out of them. | 5. In accountancy conclusions are derived on the basis of accounts maintained in book-keeping. |
| 6. In book-keeping statements showing net results and financial position are not prepared. | 6. While in accountancy all these statements are prepared which show the correct financial position of the business. |

**Utility and Advantages of Financial Accounting**

"Frequent accounting tends to lasting friendship."

The following are the main advantages of financial accounting :

1. **Helps in the payment of Income-tax and sales-tax.** Many types of taxes—income-tax and sales tax are imposed upon the businessmen now-a-days To make payment of these taxes it is necessary that accounts are maintained according to the principles of accounting.

2. **Helps in remembering.** A businessman cannot remember all the transactions, how-so ever sharp his memory may be. Therefore every transaction should be recorded in black and white so that there may not be any misappropriation.

3. **Proof in the Court of Law.** If the accounts of the business are kept properly according to the principles of accounting, they can be presented in the Court of Law for giving necessary documentary evidence. For example, the businessman has to present his accounts in the court if he wants himself to be declared insolvent.

4. **Helps in the sale of business.** If the businessman wants to sell his running business he can realise its reasonable price only if he had maintained proper accounts according to the principles of accounting. Otherwise it will not be possible to assess the correct value of the business.

5. **Helps in the realisation of debts.** Accounting proves useful in realising debts from other persons. The businessman can produce his account books in the court of law as a proof of debt.

**Limitations of Financial Accounting**

The following are the main limitations of financial accounting :

(*i*) Financial Accounting is not absolutely exact.

(*ii*) Financial Accounting does not show what the business is worth.

(*iii*) Financial Accounting does not clear the whole picture.

(*iv*) Figures in financial accounting does not carry the level of their accuracy.

(*v*) Window dressing in Balance Sheet.

(*vi*) Worthless assets are also shown in financial statements.

**Double Entry System**

Double entry system of book-keeping came into existence in Italy but was developed in England. This system is based on the principle that in every transaction one party gives something while the other party takes the same. Therefore every transaction has two aspects, one debit and the other credit. For a complete recording of the transaction it is necessary that it should have both the debit and credit aspects. If one of the aspects is missing the transaction will be incomplete. Some people wrongly think that double entry system means recording a transaction twice. This is wrong. This will only double the work. Actually speaking separate account of debit and credit is maintained to have complete record of every transaction. This is why we call it a double entry system.

For a business transaction there should be more than one person. One person cannot receive anything unless there is another to give the same. When a person receives something from someone, he has also to give him something in consideration thereof. Every transaction has two aspects. One aspect denotes the receiver and the other giver. Modern system of book-keeping is based on this principle and it is called double entry system of book-keeping.

Every transaction has two aspects, one representing the receiver and Debtor and the other giver or creditor. This gives the name to this sysem of Book-keeping known as the Double entry system. Double Entry System is based upon the principle that every receiver implies a giver and every giver a receiver. In each transaction the receiver is considered as the Debtor and the giver as the Creditor.

The price of the commodity is sometimes paid immediately and sometimes it is paid in future. The traders have, apart from business goods, raw material, cash, furniture, etc. One more thing should be kept in mind that in order to run and extend the business certain expenses have to be incurred so that there may be income in future. The expenses are recorded in different books of accounts. On the basis of the above it can be said that the following common points are found in all the businesses :

1. There should be a group of persons, institutions, firms and companies with whom the business may be transacted.

2. The businessmen should have goods to run and increase the business.

3. There are some sources of business where money is to be spent while there are others which result in income.

Every transaction affects the individual, institution. firm, company, goods and the items of income and expenditure. Therefore accounts are also kept under these very heads. Both the aspects of a transaction can affect any of the two accounts mentioned above. Thus giving process affects one party and taking process affects the other party. For example, we received cash from Harish Kumar. The effect of this transaction on our Cash A/c will be of receiving and on Harish Kumar's A/c of giving. Thus in our books one entry will be made in cash account for receiving cash and another entry will be made in Harish Kumar's A/c for giving cash. Thus every transaction has receiving and giving aspects. According to the principles of book-keeping receiving is shown on the debit and giving on the credit side. Debiting means writing on the left side of the account and crediting means writing on the right side of the account.

**Parts of Double Entry System**

There are three parts of this system.

1. **Original Record.** All the transactions of a trader are first recorded in a Rough Book, Waste Book or Memorandum Book. From the Waste Book the trader prepares the main book of accounts called ledger.

2. **Classification.** Every individual, institution, firm, or a company prepares ledger posting to know the combined effect of assets or income and expenditure from every account we can know the combined effect of all the transactions related to it.

3. **Summary.** After preparing separate accounts the trader prepares trading and Profit and Loss Account and Balance Sheet

to know the trading result and the exact financial position of his business.

**Advantages of Double Entry System**

Following are the main advantages of Double Entry System of Book-keeping :

1. **Complete record of every transaction.** In double entry system complete record of every transaction is maintained because in this system personal, real and nominal accounts are maintained and both debit and credit aspects are recorded in them.

2. **Reliable information.** Under this system all-day-to-day information like the amount to be received and given, etc., can be received in a proper way.

3. **Full details.** If the need arises full detalis of every transaction can be easily made available.

4. **Testing of Ledger posting by Trial Balance.** Both debit and credit aspects of every transaction are recorded in this system. Therefore arithmatical accuracy of the posting can be easily tested.

5. **Preparing Trading A/c.** By preparing a Trading A/c the trader can easily find out the Gross Profit.

6. **Preparing Profit and Loss A/c.** Similarly he can find out the Net Profit by preparing a Profit and Loss A/c.

7. **Preparing Balance Sheet.** We can ascertain the financial position of the business by preparing a Balance Sheet.

8. **Comparisions of Expenditures.** All the nominal accounts are maintained in this system. So the expenditure of the current year can be compared to those of the previous year and thus it proves a check upon any unnecessary expenditure.

9. **No Scope of Fraud.** This system of Book-keeping is so scientific and there is hardely any scope of forgery and manipulations as compared to other systems. If at all there is any chance of manipulation, it can be easily traced out.

10. **Scientific System.** This system is more progressive and more scientific as compared to any other systems of book-keeping. Due to its popularity this system has been adopted by all the progressive countries all over the world.

**Standard Questions**

1. What is Accounting ? What are its main objects ?
2. Discuss the scope of Accounting in detail.
3. What are the main limitations of financial Accounting ?
4. What is the nature of Accounting ?
5. What is book-keeping ? How does it differ from Accounting.

6. **Explain in brief :**

(*i*) Assets, (*ii*) Equity, (*iii*) Revenue, (*iv*) Account, (*v*) Expense.

7. What is meant by Financial Statement ?
(*Delhi S.S.C. Exam., 1978*)

8. What are financial Statements ? What are the purposes of presenting them ?
(*Delhi S.S.C. Exam., 1978* (*C*))

9. Define the Double Entry system of Accounting.
(*Delhi S.S C. Exam., 1978* (*C*))

10. Explain "Every debit has got a credit and 'vice versa'.
(*Delhi S.S.C. Exam., 1978*)

# 2

# Business Income, Financial Position, Business Entity Concept & Accounting Equation

## Business Income

"Business income of any cocern is the excess of the revenue gains over the expenses incurred for maintaining and running the business during a particular period concerned." *The nature of business income will depend on the nature of work done by the business concern.* That is whether the firm is an *Industry* which produces goods and sells them or it is a *Trading Concern* that simply purchases and sells them, or it is a business concern which provides *Commercial services* like transportation, insurance, packing, loading, etc., or a concern providing *advisory services* like legal advisers, chartered accountants and other professionals. Now let us try to understand the same with the help of an example.

Assume there is a firm *ABC* manufacturing furniture and selling it. The firm buys raw wood, engages carpenters and provides place in the factory and also runs an office and maintains a show room for selling furniture. Let us further assume that during one month the firm buys wood worth Rs. 20,000 pays cartage and freight Rs 1,000, wages to the carpenters Rs. 5,000, rent for the workshop Rs. 500, electric charges for the workshop Rs. 100, rent for show room and office Rs. 800 salaries for the staff in office Rs. 1,000, and other expenses for selling goods Rs. 600. He sells all the furniture for Rs. 40,000.

If we calculate the cost of goods sold, we shall arrive at the figure as under :—

| | |
|---|---|
| Cost of Wood (raw material) | Rs. 20,000 |
| Cartage and Freight (Transportation cost) | Rs. 1,000 |
| Wages to the Carpenters | Rs. 5,000 |
| Rent for Workshop | Rs. 500 |
| Electric Charges | Rs. 100 |
| Total Cost of Goods | Rs. 26,600 |

**Merchandising cost is the cost of goods sold.** In this case both the total cost of goods and the merchandising cost is the same (Rs. 26,600) as all the goods have been sold off. In case a part of the goods so produced or acquired is left unsold, the cost of the same will have to be deducted from the total cost to arrive at the merchandising cost. Supposing that only half of the total goods produced were sold out, we shall arrive at the merchandising cost as under :

| | |
|---|---|
| Total cost of goods | Rs. 26,600 |
| Value of unsold goods | Rs. 13,300 |
| (Merchandising cost or the cost of goods sold) | Rs. 13,300 |

Thus we see that the merchandising cost is the cost of goods *actually* sold. This cost includes all expenses incurred on goods sold up to the stage of their being made available for sale.

Proceeding further we see that our firm *ABC* sold out all the goods for Rs. 40,000. The difference between sales proceeds; *viz.*, Rs. 40,000 and the merchandising cost or cost of goods sold, *viz.*, Rs. 26,600 is called *Gross profit*. In this case the gross profit will be Rs. 13,400.

**Expenses of doing business or operating expenses**

You will further see that the firm *ABC* incurred many other expenses like rent for office and show room, maintenance of office staff and other miscellaneous expenses for selling goods. Without incurring these expenses, perhaps the firm could not have managed to execute sales and do business. These expenses were :

| | |
|---|---|
| Rent for office and show room | Rs. 800 |
| Salary to office staff | Rs. 1,000 |
| Other selling expenses | Rs. 600 |
| (Expenses of doing business) Total | Rs. 2.400 |

**Net profit or net income or Business income**

This amount of Rs. 2,400 is the total of expenses for *doing business* or operating expenses. If we deduct this amount of 'doing business' from the 'gross profit' of Rs. 13,400, we arrive at 'Net Profit' of Rs. 11,000. This is also the Net income of the business concern and also known as the 'business income'.

**Depreciation of Assets**

It would be quite appropriate to refer here to the 'invisible expense' in the form of loss of value in the fixed assets like machines and tools, furniture or buildings, etc. These fixed assets are used for quite long periods—sometimes ten to fifteen years. Obviously the

total cost of such assets cannot be considered either as merchandising cost or cost of doing business for a year. It has to be spread over the years of life of these items. *That part of the cost of these assets which is to be accounted for during an accounting period (say a year) is called 'Depreciation'.* Depreciation is the loss of value of any fixed asset by its use and wear and tear during the period of accountting. And obviously this has also to be accounted for before arriving at business income.*

While discussing above the business income, merchandising cost, gross profit, expensess of doing businese, net profit or net income, we took the example of a firm *ABC*, which falls under the category of *Industry*. There may be other business units falling under the category of *Traders* or which provide *Commercial services* or *advisory services*. The principles for calculations remain the same. The number of items and the amount of expenditure will be more under merchandising cost for an industry, whereas there shall be more items and amount of expenditure under 'expenses of doing business' for a trader. The same will be still greater in case of firms providing commercial or advisory services.

Let us be still more clear and have an illustration.

**Illustration. 2-1**

The following are the business transactions of a trader and we are to find out merchandising cost, Gross profit and Net profit or business income :

| | |
|---|---|
| Purchases (6,000 Articles) | Rs. 50,000 |
| Freight | Rs. 3,000 |
| Local Taxes | Rs. 2,000 |
| Godown Rent | Rs. 1,200 |
| Shop Rent | Rs. 800 |
| Salaries | Rs. 5,000 |
| Electric Charges | Rs. 1,200 |
| Municipal Taxes | Rs. 400 |
| Stationery | Rs. 500 |
| Sales (5,400 Articles) | Rs. 63,000 |
| Furniture (Estimated Life 10 years) | Rs. 12,000 |

**Solution.**

| | | |
|---|---|---|
| **Sales** | | Rs. 63,000 |
| *Less* : Cost of Goods sold or merchandising cost | | |
| Purchase | Rs. 50,000 | |
| +Freight | Rs. 3,000 | |
| +Local Taxes | Rs. 2,000 | |

*Depreciation will be discussed in greater details in the chapters on profit and loss account.

| | | |
|---|---|---|
| Cost of 6,000 Articles | Rs. 55,000 | |
| Stock in hand 600 Articles | Rs. 5,500 | 49,500 |
| | | 13,500 |
| Gross Profit | | |
| *Less* : Expenses for doing business | | |
| Godown Rent | Rs. 1,200 | |
| Shop Rent | Rs. 800 | |
| Salaries | Rs. 5,000 | |
| Electric Charges | Rs. 1,200 | |
| Municipal Taxes | Rs. 400 | |
| Stationery | Rs. 500 | |
| Depreciation (12,000 × 1/10) | Rs. 1,200 | 10,300 |
| Business income of Net profit | | 3,200 |

**Business Income**

Business Income is the balance income which remains after deducting the following from the amount received from sale and other profits (commission, Interest, etc)—

(*i*) Cost of goods sold,

(*ii*) Expenses incurred during the business operations (Management and operation expenses),

(*iii*) Depreciation on assets, and

(*iv*) Other business losses (Loss by fire).

Thus net income for the period is the excess of revenues realised during the period by a specific accounting entity over the cost expired (including losses) during the same period. It must be noted that private income of the proprietor is not included in business income.

**Merchandising cost or cost of goods sold**

The cost of goods sold includes all expenses incurred on goods sold up to the stage of their being made available for sale. For calculating cost of goods sold it is desirable to ascertain the value of stock in the beginning as well as at the end of the year. If we include net purchases (purchases, minus purchases return) in opening stock, it becomes the cost of goods available for sale, if all direct expenses like wages, cartage and local taxes are also included in it. If we deduct closing stock from the cost of goods available for sale, then it remains the cost of goods sold. The following example will be sufficient to explain the above facts :

| | | Rs. | Rs. |
|---|---|---|---|
| | Opening Stock | | 2,000 |
| *Add :* | Purchases | 18,000 | |
| *Add :* | Freight | 100 | |
| | | 18,100 | |
| *Less :* | Purchases Returns | 1,000 | |
| | Net Purchases | | Rs. 17,100 |
| | Goods available for Sale | | Rs. 19,100 |
| *Less :* | Closing Stock | | Rs. 4,000 |
| | Cost of Goods Sold | | 15,100 |

Thus, Cost of goods sold=Opening Stock+Purchases+Direct expenses—Closing Stock

Rs. 2,000+Rs. 17,000(18,000—1,000)+Rs. 100—Rs. 4,000
=Rs. 15,100

This may also be explain by an equation

> Cost of Goods Sold=Opening Stock+Net Purchases+
> Direct Expenses—Closing Stock

**Illustration. 2-2**

From the following particulars, find out the Cost of goods sold :

| | Rs. |
|---|---|
| Opening Stock | 6,000 |
| Purchases | 40,000 |
| Purchases Returns | 5,000 |
| Carriage | 2,000 |
| Freight | 3,000 |
| Closing Stock | 12,000 |

**Solution**

Cost of Goods sold=Opening Stock+Purchases—Purchases Returns+Direct Expenses– Closing Stock.

=Rs. 6,000+Rs. 35,000 (Rs. 40,000—Rs. 5,000)
+Rs. 2,000+Rs. 3,000—Rs. 12,000=Rs. 34,000

**Gross Profit**

The total amount received by a trader either from sale of goods or from any other business source is the Gross Income and if we deduct cost of goods sold out of it then it remains Gross Profit. If the cost of the goods sold is more than the selling price of the goods then the difference is the Gross Loss. Thus the gross profit or loss is the difference between the cost of goods sold and selling price of the goods.

The above fact can also be explained by an equation :

| |
|---|
| Gross Profit=Amount of Net Sales—Cost of Goods Sold |

The above equation can also be put as follows in detail :

| |
|---|
| Gross Profit=Net Sales (Sales—Sales Return)+Closing Stock—Opening Stock—Net purchases—Direct Expenses |

**Illustration. 2-3.**

From the following figures of Mr. Suresh for the year 1979 : calculate (*i*) Cost of Goods Sold, and (*ii*) Gross Profit.

| | Rs. |
|---|---|
| Opening Stock | 8,000 |
| Purchases | 50,000 |
| Purchases Returns | 10,000 |
| Direct Expenses | 6,000 |
| Sales | 80,000 |
| Sales Returns | 15,000 |
| Closing Stock | 25,000 |

**Solution**

(*i*) Cost of Goods Sold=Opening Stock+Purchases—Purchases Returns+Direct expenses—Closing Stock
Rs. 8,000+Rs. 40,000 (Rs. 50,000—Rs. 10,000)+
Rs. 6,000—25,000
=Rs. 29,000

(*ii*) Gross Profit=Net Sales—Cost of Goods Sold
=Rs. 65,000 (Rs. 80,000—Rs. 15,000)—Rs. 29,000
=Rs. 36,000

**Expenses of doing business**

Expenses incurred during the business operations are expenses of doing business. These expenses are also termed as 'Indirect Expenses' for example, Salaries, Interest, Insurance Premium, Commission, Bookerage and depreciation on fixed asset. Operation, expenses includes the following .

(*i*) Selling Expenses ;

(*ii*) Distribution Expenses ;

(*iii*) Office and Administrative Expenses ;

(*iv*) Financial Expenses.

**Net Income**

Net income is ascertained by deducting operation expenses out of Gross Profit. Income Statement is prepared for this purpose, this statement can be divided into two parts : (*i*) Trading Account, (*ii*) Profit and Loss Account.

**Illustration. 2-4**

*X* provides you the following figures relating to the year 1980 :

| | Rs. |
|---|---|
| Opening Stock | 18,000 |
| Purchases | 35,000 |
| Direct Expenses | 3,000 |
| Operating Expenses | 6,000 |
| Sales | 70,000 |
| Closing Stock | 10,000 |

Calculate : (*i*) Cost of goods sold, (*ii*) Gross Profit, (*iii*) Net Profit.

**Solution**

| | | Rs. | Rs. |
|---|---|---|---|
| | Sales | | 70,000 |
| *Less* | Cost of Goods sold | | |
| | Opening stock | 18,000 | |
| | +Purchases | 35,000 | |
| | +Direct Expenses | 3,000 | |
| Goods available for Sale | | 56,000 | |
| | —Closing Stock | 10,000 | 46,000 |
| | Gross Profit | | 24,000 |
| | —Operating Expenses | | 6,000 |
| | Net Profit or Business Income | | 18,000 |

The net profit is always added to the capital. Likewise net loss is always deducted from the capital.

## FINANCIAL POSITION

Financial position of a person is assessed through his possessions—the cash and other assets that he owns. But if what he owes others, be more than what he owns, he would become insolvent. So it is not alone the quantum of his cash and assets what matters, but its relative excess over his liabilities. Likewise if the assets of a business firm are substantially more than its liabilities and capital the financial position of the firm is assumed to be sound.

The capital is the amount invested by the proprietor in the firm. If after a certain period the capital increases and goes on growing—the financial position of the firm is said to be continuously improving. On the other hand if on account of continued losses the capital goes on reducing, the financial position is said to be not good. Continued losses year after year may lead to insolvency. So

if a firm earns profit, year after year, the financial position of such a firm is said to be good.

For assessing the soundness of a firm, another point is to be considered. Business operations go on every day and every firm pays its creditors and receives from its debtors. If a firm is not in a position to pay off the claims of the firm either immediately or at short notice, the financial position cannot be treated as good. Such a situation is possible even though the assets may be quite much more than the liabilities and capital. In other words liquid assets should always be sufficiently much more than the sundry creditors to maintain sound financial position of a firm.

Thus the two criteria of judging the financial position of a firm are :—

(*i*) Profit-earning capacity, *i.e.*, the ability of the firm to earn profit.

(*ii*) Ability to pay off debts promptly, *i.e.*, the firm should have sufficient funds to pay off immediately the debts that become due to it from time to time. This is known as Liquid ratio or the acid test ratio.

Let us take an example. *ABC* started business on 1st Jan. with Rs. 50,000. At the end of the year they earned Rs. 15,000 as net profit. This 'net profit' helps to assess the financial position of the firm by enabling one to judge the 'profit earning capacity' of the firm which is say 30%. The financial position can be considered quite good as this earning ability is quite higher than normal rate of investments in bank and elsewhere. There is yet another important point to be considered. That is the firm's capacity to pay off promptly the debts that become due. Now suppose this firm invested most of its resources in long term investments and is not in a position to pay off to the creditors for goods bought, or salaries and wages, etc., on time. In such a situation, the financial position of the firm cannot be considered to be good, in spite of the fact that the total assets may be more than liabilities and the firm commands greater profit-earning ability. It is therefore very essential for a firm to stay 'solvent', *i.e.*, be able to pay promptly any debt that becomes due to it. That is possible only when the firm keeps its cash and liquid assets sufficiently much more than its current liabilities.

**Business entity concept**

In accountancy a distinction is always made and maintained between the proprietor(s) and the business firm. Business entity concept means that the business is to be treated as a separate entity by itself independent of the owner's entity. The firm and the owner are to be treated as two separate entities. In the books of account of business, each transaction is recorded from the point of view of the firm and not from the point of view of the owner.

As such, when the owner brings money for the firm he becomes a creditor of the firm and treated likewise, by keeping an account of the owner like other creditors. However, in the eyes of law (except in case of companies where shareholders are treated as distinct from

the companies) the entities of the owner(s) are merged with the firm. In case the firm is not in a position to pay off the creditors, they can recover their dues from the owners.

**Assets.** Assets mean properties of a business firm or the amount which is outstanding and which the firm has to receive from outsiders. These are the things of value owned by a firm. It enables the firm to get cash or benefit in future, cash, amount with bank, debtors, machinery, buildings, furniture, goods, bills receivable, etc., are all examples of assets.

**Classification of assets.** To distinguish one type of assets from the others—they have been classified in three categories :

(*i*) *Liquid Assets* All such assets as are in the form of cash or which can be quickly converted into cash are called liquid assets. Cash, Bank, Investments, Bills receivable, etc , are the examples of liquid assets.

(*ii*) *Floating Assets.* All such assets whose value constantly change during the course of business and which are meant for either sale or conversion into liquid assets (say cash) are called floating assets. The examples are stock in trade, debtors, etc Floating assets are also sometimes called current assets or quick assets.

(*iii*) *Fixed Assets.* All such assets that are acquired not for sale but for carrying on the business and for the purpose of earning income and are held permanently, are called fixed assets Buildings and lands, plant and machinery are the examples of such types of assets.

In this context a note of caution must be given. It is the nature of the business and not the nature of the asset that will decide whether a particular asset will fall in the category of fixed asset or floating asset. Machinery will be fixed asset for a business concern producing goods. But the same will be floating asset for a dealer in machines. Likewise furniture will be floating assets for a furniture dealer but a fixed asset for the rest of the business concerns.

**Liabilities or equities.** We have already learnt that the 'business firm' has a separate entity from that of its proprietor under business entity concept. Liabilities or equities are all such claims that can be enforced against the assets of a firm. Accordingly the owner has also his claim on the assets of the firm for the capital invested by him. However, this claim will always the last as against the outside creditors. As such a distinction is made between the *creditor's equity* and the *owner's equity*. Ordinarily the creditor's equity is called liabilities and owner's equity is called *capital*. This is done to retain the distinctive nature of owner's equity.

**Classification of Liabilities.** In order to understand the nature of various liabilities, the same have been classified as under :

(*i*) *Fixed Liabilities.* These are the liabilities of permanent

nature payable after a long period of time. Capital of the owner and long term loans from outsiders fall under this category.

(*ii*) *Current Liabilities.* Such liabilities as are payable in near future or immediately, like trade creditors, bank overdrafts, bills payable, etc,, fall under this category.

(*iii*) *Outstanding Liabilities.* Expenses incurred or commission due, but not paid fall under this category. These are the liabilities already accrued but have not been paid.

(*iv*) *Contingent Liabilities.* These are liabilities which will actually accrue in the near future. They may or may not become actual liabilities. A provision is always kept in the form of reserves for such items and they are called contingent liabilities.

**Capital and Net worth.** Capital is the amount invested by the proprietor in a business firm As the business firm has a separate business entity from the owner, the capital may be considered to be what the firm owes to the proprietor *i.e* , what he can claim from the firm. When the firm earns profits it is added to the capital. Similarly, when it incurs losses it is deducted from the capital.

It has already been made clear earlier that capital is also called 'owner's equity' and how it differs from 'creditor's equity'. Capital is also sometimes called '*net worth*' of the business. Net worth represents Capital and Reserves. In case of joint stock companies, it will represent the total share capital and all those Reserves that belong to the shareholders. In other words :

Net worth = Assets — Liabilities (Creditor's equity).

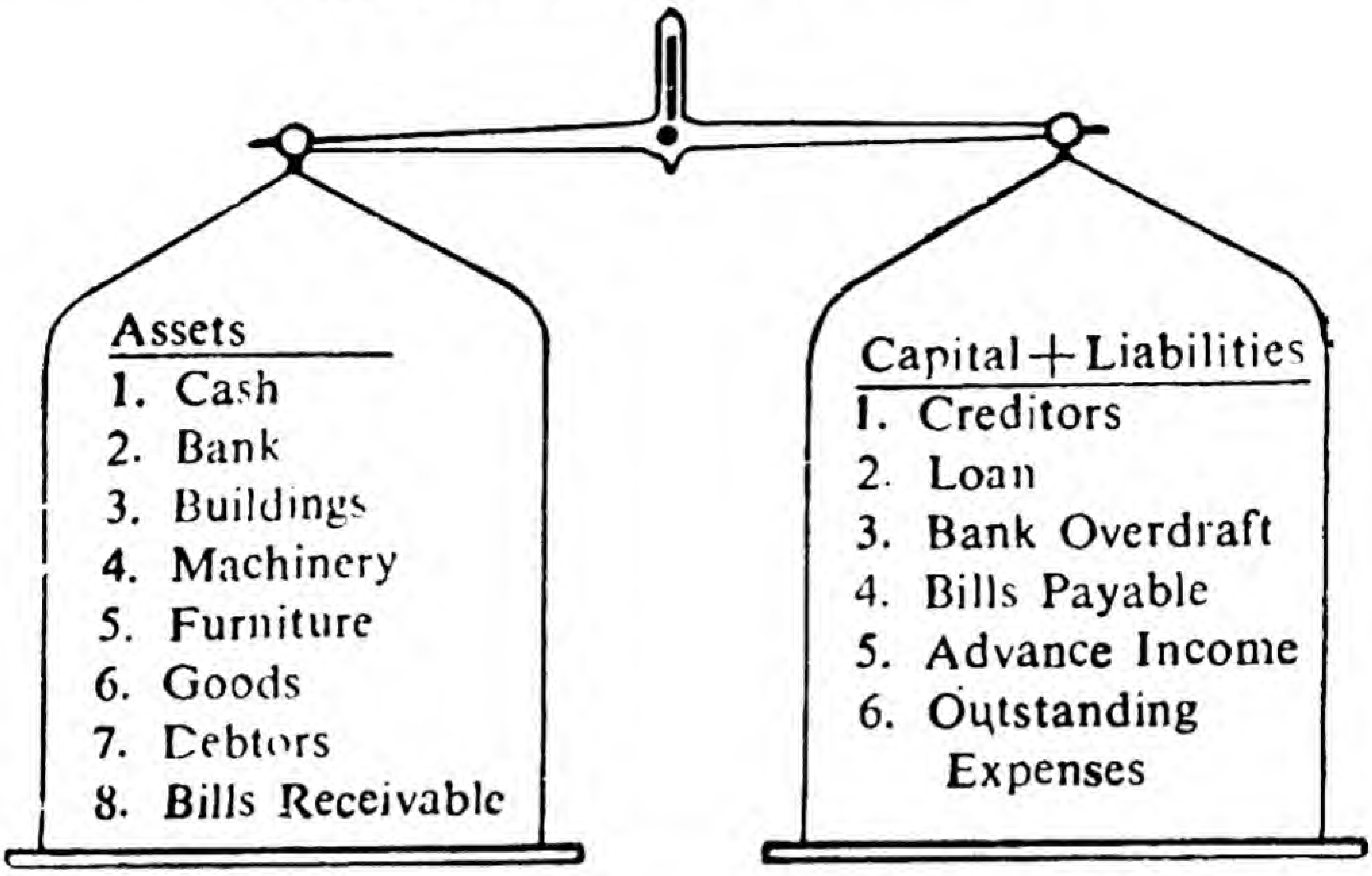
**Net worth and Tangible Net worth.** But assets may sometimes have on its list many 'intangible assets', and fictitious assets like goodwill, patent rights, preliminary expenses, commission and brokerage on shares, etc. These assets do not help a firm in its day-to-day running operations, though it is very well reckoned while calculating net worth. It is the 'Tangible net worth' which is of consequence to the management accounting. And this tangible net worth is arrived at after deducting the value of these intangible assets from net worth.

## ACCOUNTING EQUATION

The entire system of recording business transactions is based on accounting equation. Each transaction has a dual aspect, known as 'duality concept' in accounting. Accordingly each transaction will have simultaneously two-fold effect on the financial position of a business. Initially the resources of the firm are provided by the owner in the form of his capital which in the language of accounting is called *owner's equity*. These initial resources are usually in the form of cash. And this cash is the asset of the firm. But according to business entity concept, simultaneously a liability has been created in the form of owner's equity or capital. One is

balanced against the other or is equated with the other. This is the first accounting equation which can be put as :

Cash (Assets)=Capital (Liabilities)




**Definition.** The dictionary meaning of the word 'equation' is that it is a formula affirming equivalance of two expressions connected by=(sign of 'is equal to'). *Accounting equation is thus an accounting formula expressing equivalence of the two expressions of Assets and Liabilities as shown just above.*

Now this cash is converted into other resources to enable the firm to conduct its business. Resources are also accepted from other sources (other than the owner) as well. Each such transaction will affect the first accounting equation. However, this equation will always remain balanced on account of the dual aspect or duality of a transaction. This implies that if there is a change in one item of the transaction, there must be an equal and opposite change in another item. In all cases total assets will always be equal to total liabilities. Let us add another transaction. The firm buys on credit goods for resale, One aspect of the transaction is that goods have been received and have become the assets of the firm But simultaneously a creditor's equity (Liability) has been created (as the payment will have to be made for the goods received). The earlier accounting equation will now be modified as under :

Cash+Goods (Assets)=Capital+Creditor (Liabilities)

An increase in assets side will inevitably lead to increase in the liabilities side Likewise a decrease in assets will result in decrease in liabilities. But changes on the same side may also occur without disturbing the accounting equation. For example, if goods are bought for cash, cash will be paid and thus reduced and goods have been received and thus increased. So the total assets remain the same and accounting equation still remains intact. This dual change may take place either on the same side or on both the sides of the accounting equation.

Now we know that each transaction will bring changes in the *asset-equity equation* in one way or the other. The nature of such changes can be briefly summed up as under :

1. An increase in asset side leading to an equal increase in liabilities side or vice versa.

2. A decrease in asset side leading to an equal decrease in liabilities side or vice versa

3. An increase in one type of asset resulting in an equal decrease in another type of asset.

4. A decrease in one type of asset resulting in an equal increase in another type of asset.

5. An increase in one type of liabilities resulting in an equal decrease in another type of liabilities.

6. A decrease in one type of liabilities resulting in an equal increase in another type of liabilities.

**Balance Sheet**

Accounting equation is also often called Balance Sheet equation. Balance Sheet is a financial statement listing Assets on one side and Liabilities on the other, and thereby giving a true picture of financial position of a business concern. This is always prepared at a particular date in a particular form. The usual proforma is as under :

BALANCE SHET of M/s

*as on*

| Liabilities | Amount | Assets | Amount |
|---|---|---|---|
| Capital<br>Creditors<br>Loans<br>Bills Payable<br>Advance Incomes<br>Outstanding expenses | | Cash at Bank<br>Land and Buildings<br>Machinery<br>Furniture<br>Debtors<br>Stock | |
| Rs. | | Rs. | |

Note : 1. Liabilities are shown on the left hand side and Assets on the right hand side of Balance Sheet.

2. Totals of both the sides should always tally.

Whatever we have said so far will be better understood with an illustration given under :

**Illustration. 2-5.**

(*i*) Sanjay Kumar started business with Cash Rs. 10,000.

(*ii*) He purchased goods for Cash Rs. 5,000.

(*iii*) He purchased goods on Credit for Rs. 4,000.

(*iv*) He sold goods for Cash Rs. 5,000 (Cost price was Rs. 4,000).

(*v*) He withdrew Rs. 500 for private expenses.

(*vi*) Paid Rent Rs. 50.

(*vii*) He sold goods for Rs. 3,000 on Credit.

(*viii*) Rent outstanding Rs. 200.

These transactions can be explained with the following method :

**Transaction 1.** Sanjay Kumar has started business with Cash Rs. 10,000. Business is a separate legal entity. From this point of view the business has received Rs. 10,000. Thus on the one hand the assets of the business have increased in the form of Cash of Rs. 10,000 and on the other hand the liabilities of the business have also increased in the form of Capital of Rs. 10,000. It can be shown by the following equation :

Equation

| Assets | = | Liabilities + Capital |
|---|---|---|
| Rs. 10,000 | = | — + Rs. 10,000 |

**Transaction 2.** Sanjay Kumar purchased Goods for Rs. 5,000. In this transaction Goods have been received and cash has been paid.

| | Assets | | | | | | |
|---|---|---|---|---|---|---|---|
| | Cash | + | Stock | = | Liabilities | + | Capital |
| Old Equation | 10,000 | + | — | | — | + | 10,000 |
| Transaction | —5,000 | + | 5,000 | | — | + | |
| New Equation | 5,000 | + | 5,000 | | — | + | 10,000 |

**Transaction 3.** Sanjay Kumar purchased Goods on Credit for Rs. 4,000. In this transaction the business has received Goods and the seller is the Creditor of the business.

| | Assets | | | | | | |
|---|---|---|---|---|---|---|---|
| | Cash | + | Stock | = | Liabilities | + | Capital |
| Old Equation | 5,000 | + | 5,000 | | — | + | 10,000 |
| Transaction | — | + | 4,000 | | +4,000 | + | — |
| New Equation | 5,000 | + | 9,000 | | 4,000 | + | 10,000 |

**Transaction 4.** Sanjay Kumar sold goods for cash Rs. 5,000 (Cost price was Rs. 4,000). The trader has got a profit of Rs. 1,000. This transaction will have two-fold effect : (*i*) Cash will be increased by Rs. 5,000 and the Capital will also be increased by the same amount, and (*ii*) The stock will be reduced by Rs. 4,000 and the Capital will also be reduced by the same amount. It can be expressed as follows :

| | Assets | | | | | | |
|---|---|---|---|---|---|---|---|
| | Cash | + | Stock | = | Liabilities | + | Capital |
| Old Equation | 5,000 | + | 9,000 | | 4,000 | + | 10,000 |
| Transaction | +5,000 | — | 4,000 | | — | + | 5,000 |
| | | | | | — | — | 4,000 |
| New Equation | 10,000 | + | 5,000 | = | 4,000 | + | 11,000 |

**Transaction 5.** Sanjay Kumar withdrew Rs. 500 for private expenses. This transaction will reduce the Assets of the business in the form of Cash Rs. 500 and the Capital will also be reduced by Rs. 500.

| | Assets | | | | | | |
|---|---|---|---|---|---|---|---|
| | Cash | + | Stock | = | Liabilities | + | Capital |
| Old Equation | 10,000 | + | 5,000 | = | 4,000 | + | 11,000 |
| Transaction | −500 | | — | = | — | + | 500 |
| New Equation | 9,500 | + | 5,000 | = | 4,000 | + | 10,500 |

**Transaction 6.** Sanjay Kumar paid Rent Rs. 50. By this transaction Cash will be reduced by Rs. 50 and also the Capital will be reduced by Rs. 50.

| | Assets | | | | | | |
|---|---|---|---|---|---|---|---|
| | Cash | + | Stock | = | Liabilities | + | Capital |
| Old Equation | 9,500 | + | 5,000 | | 4,000 | + | 10,500 |
| Transaction | −50 | + | — | | — | — | 50 |
| New Equation | 9,450 | + | 5,000 | | 4,000 | + | 10,450 |

**Transaction 7.** Sanjay Kumar sold goods for Rs. 3,000 on Credit. In this transaction his Assets will be decreased by Rs. 3,000 in the form of Stock and on the other hand his Assets will be increased by Rs. 3,000 in the form of Debtors.

| | Assets | | | | | = | Liabilities | | |
|---|---|---|---|---|---|---|---|---|---|
| | Cash | + | Stock | + | Debtors | = | Creditors | + | Capital |
| Old Equation | 9,450 | + | 5,000 | | — | | 4,000 | + | 10,450 |
| Transaction | — | — | 3,000 | + | 3,000 | | — | | — |
| New Equation | 9,450 | + | 2,000 | + | 3,000 | = | 4,000 | + | 10,450 |

**Transaction 8.** Sanjay Kumar's Rent Outstanding is Rs. 200. This transaction will increase the outstanding liabilities by Rs. 200 and reduce the Capital by Rs. 200.

| | Assets | Liabilities | | |
|---|---|---|---|---|
| | Cash+Stock+Debtors | Creditors | + Outstanding Rent | + Capital |
| Old Equation | 9,450+2,000+3,000 | 4,000 | — | 10,450 |
| Transaction | — — — | — | + 200 | −200 |
| New Equation | 9,450+2,000+3,000 | 4,000 | + 200 | + 10,250 |

The above balances of the Accounting Equation can be arranged in the form of a Balance Sheet of Sanjay Kumar.

BALANCE SHEET OF SANJAY KUMAR

*As on..........*

| Liabilities and Capital | Rs. | Assets | Rs. |
|---|---|---|---|
| Creditors | 4,000 | Cash in hand | 9,450 |
| Outstanding Rent | 200 | Goods | 2,000 |
| Capital | 10,250 | Debtors | 3,000 |
| | 14,450 | | 14,450 |

**Standard Questions**

1. How the net income of a business concern is determined ?
2. Write short notes on the following :

   (*i*) Cost of Goods sold, (*ii*) Business Income, (*iii*) Financial Position, (*iv*) Working Capital, and (*v*) Balance Sheet.
3. What is Accounting Equation ? Explain with suitable illustrations.
4. "Accounting Equation is true under all circumstances". Justify this statement with the help of five illustrations.
5. Explain the business entity concept (approximately in 50 words). *(D.H.S. 1977; All India H.S. 1977)*
6. Explain Accounting Equation. *(D.H.S. 1977)*
7. State whether earnings (the result of profitable operations) increase or decrease owner's equity. *(D.H.S. 1977)*
8. What is Working Capital in Accounting ?

   *(D.S.S.C.E. 1978)*

9. (*a*) Which equation is correct ?

Capital = Assets + Liabilities

Liabilities = Capital − Assets

Capital = Net Assets

(*b*) The profit made by a concern during the past one year would be, when the Capital increased by Rs. 40,000 and Drawings amounted to Rs. 10,000 : (*i*) Rs. 50,000, (*ii*) Rs. 30,000, (*iii*) Rs. 40,000.

(*D.S.S.C.E., 1978*)

10. What is Correct ?

Capital = Assets − Liabilities

Capital = Assets + Liabilities

Liabilities = Capital + Assets

11. (*i*) Briefly state the rules of debiting and crediting accounts classified on the basis of Accounting Equation.

(*D.S.S.C.E., 1979* [C])

(*ii*) From the following particulars prepare Proprietor's Capital Account

| | Rs. |
|---|---|
| Oct. 1, 1980 Commenced business with Cash | 20,000 |
| Dec. 1, 1980 Net loss as per P & L A/c | 1,800 |
| Dec. 1, 1980 Drawings during the period | 1,500 |

(*iii*) Ascertain Cost of goods sold from the following :—

| | Rs. |
|---|---|
| Opening Stock | 8,500 |
| Purchases | 30,700 |
| Direct Expenses | 4,800 |
| Indirect Expenses | 5,200 |
| Closing Stock | 9,000 |

(*D.S.S.C.E., 1979*)

12. Find out Net Income from the following figures relating to the year 1979 :

| | |
|---|---|
| Opening Stock | 10,000 |
| Purchases | 25,000 |
| Direct Expenses | 1,000 |
| Closing Stock | 5,000 |
| Operating Expenses | 2,000 |
| Sales | 40,000 |

**Ans.** *Rs. 70,000.* (*S.S.C. Delhi, 1980*)

13. Ascertain the cost of goods sold from the following :

| | |
|---|---|
| Opening Stock | 8,500 |
| Purchases | 35,700 |
| Direct Expenses | 8,400 |
| Indirect Expenses | 5,200 |
| Closing Stock | 9,600 |

*(Delhi S.S.C., 1980 Comptt.)*

14. In each of the following cases indicate the alternative which you consider to be correct :—

The liabilities of a firm are Rs. 3,000 ; the capital of the proprietor is Rs. 7,000. The total assets are :—

(*i*) Rs. 7,000, (*ii*) Rs. 10,000, (*iii*) Rs. 4,000.

*Ans.—Rs. 10,000*

15. The assets of a business on 31st December, 1980 are worth Rs. 50,000, its Capital is Rs. 35,000. Its liabilities on that date shall be—Rs. 85,000, Rs. 15,000, Rs. 35,000.

*Ans. Rs. 15,000*

16. Calculate total Assets if :—

(*i*) Capital is Rs. 40,000 ;

(*ii*) Creditors Rs. 25,000 ;

(*iii*) Revenue during the period is Rs. 50,000 ; and

(*iv*) Expenses during the same period are Rs. 40,000.

17. Taking the profits and losses also into consideration, state with the help of Accounting Equation, what will the Assets be equal to ?

*(D.S.S.C.E. 1978 [C])*

**Practical**

1. Show the Accounting Equation on the basis of the following transactions :—

| | Rs. |
|---|---|
| (*i*) *X* started business with Cash | 10,000 |
| (*ii*) Purchased goods on Credit | 5,000 |
| (*iii*) Furniture purchased for Cash | 1,000 |
| (*iv*) Sold goods (costing Rs. 1,600) for Rs. | 2,000 |
| (*v*) Sold goods on credit (costing Rs. 800) for | 1,200 |
| (*vi*) Bought goods worth Rs. 1,975 (Paid Rs. 975 in Cash, balance on credit.) | |
| (*vii*) Drew for personal use | 200 |
| (*viii*) Paid for Salaries | 300 |
| (*ix*) Paid on his debt | 1,300 |

2. **Develop the Accounting Equation with the following transactions.**

   (*i*) **S. Kumar started business with Cash Rs. 20,000.**
   (*ii*) **Purchased goods worth Rs. 6,000 for Cash.**
   (*iii*) **Purchased goods for Rs. 8,000 on Credit.**
   (*iv*) **Paid for Wages Rs. 100.**
   (*v*) **Paid for Rent Rs. 500.**
   (*vi*) **Furniture purchased for Rs. 200.**
   (*vii*) **Sold goods (Costing Rs. 2,000) for Rs. 2,500.**
   (*viii*) **Sold goods (Costing Rs. 2,500) for Rs. 3,000.**
   (*ix*) **Rent Outstanding Rs. 200.**

3. **Develop the Accounting Equation with the following transactions :**

| | | |
|---|---|---|
| (*i*) | Mr. Flower started his business with Cash | Rs. 20,000 |
| (*ii*) | Business increases Cash by borrowing | Rs. 8,000 |
| (*iii*) | Furniture purchased for | Rs. 2,000 |
| (*iv*) | Goods purchased from Rose for | Rs. 2,000 |
| (*v*) | 50% of the goods is sold for Cash | Rs. 1,400 |

   (*vi*) **If rent of the shop is Rs. 40 per month and the rent is paid on 1st day of the next month. In this case Rs. 440 would be paid out of cash and Rs. 40 would be outstanding.**

4. Arvind had the following transactions. Use Accounting Equation to show their effect on his assets, liabilities and capital :

   (*i*) Invested Rs. 15,000 in Cash.
   (*ii*) Purchased securities for Cash Rs. 7,500.
   (*iii*) Purchased a home for Rs. 15,000 giving Rs. 5,000 in Cash and the balance through a loan.
   (*iv*) Sold securities costing Rs. 1,000 for Rs. 1 500.
   (*v*) Purchased an Old Car for Rs. 2,800 Cash.
   (*vi*) Received Cash as salary Rs. 3,600.
   (*vii*) Paid Cash Rs. 500 for loan Rs. 300 for interest.
   (*viii*) Paid Cash for household expenses Rs. 300.
   (*ix*) Received Cash for dividend on securities Rs. 200.

(*All India Hr. Sec., 1975*)

5. Anil had the following transactions :—

   (*i*) Commenced business with cash Rs. 50,000.
   (*ii*) Purchased goods for Cash Rs. 20,000 and credit Rs. 30,000.
   (*iii*) **Sold goods for Cash Rs. 40;000 costing Rs. 30,000.**

(*iv*) Rent paid Rs. 500.
(*v*) Rent Outstanding Rs. 100.
(*vi*) Bought furniture Rs. 5,000 on credit.
(*vii*) Bought refrigerator for personal use Rs. 5,000.
(*viii*) Purchased building for Cash Rs. 20,000.

(*All India H. S. Comptt., 1976*)

6. Prove that the Accounting Equation is satisfied in all the following transactions of Suresh :—
(*i*) Commenced business with Cash Rs. 60,000.
(*ii*) Rent paid in Advance Rs. 500.
(*iii*) Purchased goods for Cash Rs. 30,000 and Credit Rs. 20,000.
(*iv*) Sold goods for Cash Rs. 30,000, Costing Rs. 20,000.
(*v*) Paid Salary Rs. 500 and Salary Outstanding Rs. 100.
(*vi*) Bought motor-cycle for personal use Rs. 50,000.

(*All India H. S. 1977*)

7. Prepare accounting equations on the basis of the following :—
(*i*) Rahim started business with Cash Rs. 20,000
(*ii*) Rahim purchased furniture for Cash Rs. 2,000.
(*iii*) Rahim paid rent Rs. 200.
(*iv*) Rahim purchased goods on credit Rs. 3,000.
(*v*) Rahim sold goods (Cost price Rs. 8,000) for Rs. 13,000 on cash.

(*Delhi Senior School Certificate Exam., 1978*)

8. (*a*) Justify the statement that 'Accounting Equation' (A=L+C) holds good under all circumstances. Give at least two illustrations.

(*b*) Show the accounting Equation on the basis of the following transactions and present a Balance Sheet on the last new equation balances.

| | | Rs. |
|---|---|---|
| (*i*) | Mohan commenced business with Cash | 70,000 |
| (*ii*) | Purchased goods on Credit | 14,000 |
| (*iii*) | Withdrew for private use | 1,700 |
| (*iv*) | Goods purchased for Cash | 10,000 |
| (*v*) | Paid wages | 300 |
| (*vi*) | Paid to creditors | 10,000 |
| (*vii*) | Sold goods on credit for | 15,000 |
| (*viii*) | Sold goods for Cash (Cost price was Rs. 3,000) | 4,000 |
| (*ix*) | Purchased furniture for | 500 |

(*All India Senior School Certificate Exam., 1978*)

# 3

# Accounts and Ledger

### Introduction

We have seen in the last chapter that each business transaction had its effect on the accounting equation or the balance sheet. Since the transactions were very few (in illustration), each transaction was recorded directly and each time a new accounting equation or balance sheet was prepared. But this System is not possible in real life situation of a business concern. It is not possible *firstly* because of the innumerable transactions taking place in actual business operations each day. *Secondly* such equation will show the financial position of assets and equities on a particular date *viz.* a points of time and will not be able to show the position over a period of time. That could be possible only by analysing the entire series of such equations, which is almost impossible for any business organisation. *Thirdly* such equations do not provide a total picture of any single item of asset, liability, revenue or expenditure in particular.

### Accounts

It is because of these limitations of the accounting equation procedure, that in actual practice a device is used in recording and summarising the decreases and increases in each asset or equity item. All the transactions of like nature pertaining to a particular type of item are recorded at one place and instead of showing the effect of each individual transaction on accounting equation, their cumulative effect is shown at the end of the accounting period. Such a record of individual items is called an account. In other words recording of all the transactions of the like nature concerning a particular items at the same place is called an account.

### Ledger

The book designed to record the various accounts maintained by a business concern is called Ledger. It may be a bound book or in the form of a file having loose leaves.

### Form of an A/c

The form of an account is the division of a page on two halves by a vertical line which looks like the letter T. The left hand side is called the Debit side and the right hand side is called the Credit side. Each side has four columns which give details of the transaction recorded in it. The proforma of an account is as under :

Debit **ACCOUNT PROFORMA** Credit

| Date | Particulars | L.F. | Dr. Amount | Date | Particulars | L.F. | Cr. Amount |
|---|---|---|---|---|---|---|---|
| | | | Rs. | | | | Rs. |
| | To...... A/c | | — | | By...... A/c | | — |

**Explanation of Proforma**

An account is divided into two halves. Left hand side is called the Debit side and the right hand side is called the Credit side. At the top in the centre the name of the title of the account is given. 'A/c' is used as an abbreviation of the world account. Each side has four columns. First column is for date. The year is written at the top and under it the name of the month and date is given. Second column is for particulars. It gives in brief the nature of the transaction. Usually the name of the other account, which is affected by the transaction, because of the 'duality aspect' of the transaction, is written in it. The page number of the account whose name has been written in particulars columns is shown in the third column under 'L.F.'. The fourth column records the amount of the transaction. It is also customary to write 'To' in the begining of the particulars column on the debit side and 'By' on the credit side.

**Debit and Credit**

When we record an entry on the left hand side in an account, we say we are recording on the 'debit side'. Here the word 'debit' is used as an adjective and refers to the left hand side of the account. When we say that we have debited the account, we are using the word 'debit' as a verb and mean to say that we have recorded the transaction on the left hand side of the account (*viz.* debit side). When we say that these are the 'debits' of a particular account, we use it as a noun and mean to refer to the amounts recorded in the amount column of the debit side. The same thing applies to the word 'credit'. As an adjective it refers to the credit side, as a verb it means recording entries on the credit side and as noun it refers to the amounts on the credit side. 'Dr.' is used an abbreviation for the word debit and 'Cr.' as abbreviation for the word credit.

A note of caution must be made here. The words Dr. and Cr. should not be confused to mean increase and decrease in respective accounts. We have seen in the previous chapter under accounting equation, that an increase in an asset results in a corresponding increase in liability. Under the concept of 'duality', one account will be debited and the other credited. The asset account will be debited showing increase and the liability account will be credited and this credit will also represent increase.

Another point to be remembered is that whenever there is revenue gains or profits, the capital or owner's equity increases, and the same decreases with every expenses or loss. But the transactions pertaining to revenues and expenses are not recorded in capital account for if so done, we shall not be able to know the cumulative effect of individual item of expense or revenue on the capital. These transactions are recorded separately in their respective accounts and their collective effect is transferred to capital account through Profit and Loss account.

While recapitulating what has been said in the previous chapter regarding increase or decrease in the two expressions of the accounting equation, we may also try to understand as to when an increase would result in debit entry or the credit entry in any particular account. The rules regarding debit and credit can be summed up as under :

**Rules of Debit and Credit**

1. Debit the increases and Credit the decreases in Assets.
2. Debit the decreases and Credit the increases in Liabilities.
3. Debit the decreases and Credit the increases in Capital.
4. Debit the decreases and Credit the increases in Revenue.
5. Debit the increases and Credit the decreases in Expenses.

The same rules can be illustrated through following representation :

(1)
ASSETS

| Debit | Credit |
|---|---|
| Increases (+) | Decreases (−) |

(2)
LIABILITIES

| Debit | Credit |
|---|---|
| Decreases (−) | Increases (+) |

(3)
CAPITAL

| Debit | Credit |
|---|---|
| Decreases (−) | Increases (+) |

(4)
EXPENSES

| Debit | Credit |
|---|---|
| Increase (+) | Decrease (−) |

(5)
REVENUE (PROFIT)

| Debit | Credit |
|---|---|
| Decrease (−) | Increase (+) |

It may be noted that debit means increase in asset as also increase in expenses (rules 1 and 5). Debit in assets (increase) is favourable to the firm but a debit in expenses (increase) is not favourable. Likewise a credit in liability (increases) is not favourable to a firm but credit in revenue (increases) is favourable (rule 2, 3 and 4). Thus the use of the words debit and credit should not be understood to mean favourable or unfavourable things. They simply describe the two sides of the different accounts.

Now let us take an example of a few transactions, its accounting equation and the entries in different A/cs in Ledger :

| Transactions | Total Assets = | Liabilities + | Owner's Capital |
|---|---|---|---|
| (*i*) Ram Lal Commenced Business with Cash Rs. 20,000 | +20,000 | | +20,000 |
| (*ii*) Purchased goods Rs. 10,000 | +10,000 | +10,000 | |
| (*iii*) Cash withdrawn for personal use Rs. 500 | −500 | | −500 |
| (*iv*) Borrowed money Rs. 3,000 from Bank | +3,000 | + 3,000 | |
| (*v*) Repaid half of the amount borrowed | −1,500 | − 1,500 | |
| (*vi*) Expenses paid Rs. 700 | −700 | | −700 |
| Balance | 30,300 + | 11,500 + | 18,800 |

The same can be represented in another form showing increases separately in different items as under :

| Total Assets = | | Liabilities + | | Owner's Capital | |
|---|---|---|---|---|---|
| Increases | Decreases | Decreases | Increases | Decreases | Increases |
| (*i*) 20,000 | | | | | (*i*) 20,000 |
| (*ii*) 10,000 | | | (*ii*) 10,000 | | |
| | (*iii*) 500 | | | (*iii*) 500 | |
| (*iv*) 3,000 | | | (*iv*) 3,000 | | |
| | (*v*) 1,500 | (*v*) 1,500 | | | |
| | (*vi*) 700 | | | (*vi*) 700 | |
| Total 33,000 | 2,700 | 1,500 | 13,000 | 1,200 | 20,000 |
| Balance 30,300 = | | 11,500 + | | 18,800 | |

**Note.** *Transactions are to be looked from the point of view of the business.*

**Transactions**

(*i*) Ram Lal commenced business with cash Rs. 20,000. Cash has been received and an asset has been created. Hence 'Cash A/c' has been debited. Simultaneously Ram Lal (owner) has become a creditor and a liability (owner's equity or capital) has been created. Thus 'Ram Lal's Capital A/c' has been credited.

(*ii*) Purchased Goods Rs. 10,000. Goods have been received and asset added. Hence 'Goods A/c' has been debited. Simultaneously cash has been paid and so cash (asset) has decreased. Thus 'Cash A/c' has been credited.

(*iii*) Cash withdrawn for personal use Rs. 500. Cash has been paid and thus cash (asset) has decreased. 'Cash Account' has been credited. Simultaneously a Liability (owner's equity or capital) has also been reduced to the same extent and thus 'Ram Lal's Capital Account' has been debited.

(*iv*) Borrowed money from Bank Rs. 3,000. Cash has been received and thus an asset increases. So 'Cash Account' has been debited. Simultaneously a Liability has been created to the same extent and so the 'Bank Account' has been credited.

(*v*) Repaid half of the amount borrowed Rs. 1,500. Cash has been paid and thus an asset decreased. So 'Cash Account' has been credited. Simultaneously the Liability (loan) has been decreased to the extent of Rs. 1,500 and so the 'Bank Account' has been debited.

(*vi*) Expenses paid Rs. 700. Expenses have been incurred and paid. It affects the owner's equity but separate Accounts are maintained for all expenses and revenues As such 'Expenses Account' has been debited. Simultaneously cash (asset) has decreased to the same extent. Thus 'Cash Account' has been credited.

Now let us take up another example to illustrate the effects of different transactions on the two A/cs involved in each transaction. This illustration will also show that debit in case of certain A/cs would increase the amount and in case of certain other A/cs it would decrease the amount and *vice versa* :

Note: In this illustration six transactions have been taken as examples. The first column shows Serial No. The second, shows the transaction and columns three to seven shows the analysis of the transaction. The third showing the two Accounts involved in the transaction, the fourth the classification of the accounts. The first shows how these Accounts are affected by the transactions, *viz.*, increase or decrease in them. The sixth and seventh shows the Accounts that are to be debited and credited.

## ANALYSIS OF TRANSACTIONS

| S. No. | Transactions | Two A/cs Involved | Classification of Accounts | How affected | A/c to be debited | A/c to be credited |
|---|---|---|---|---|---|---|
| 1. | Started business with Rs. 20,000 | Cash | Property A/c | Increased | Cash 20,000 | |
| | | Capital | Capital A/c | Increased | | Capital 20,000 |
| 2. | Purchased goods for Rs. 8,000 | Goods | Property A/c | Increased | Goods 8,000 | |
| | | Cash | Property A/c | Decreased | | Cash 8,000 |
| 3. | Furniture Purchased Rs. 4,000 | Furniture | Property | Increased | Furniture 4,0 0 | |
| | | Cash | Property | Decreased | | Cash 4,000 |
| 4. | Salaries paid Rs. 200 | Salaries | Expense | Increased | Salaries 200 | |
| | | Cash | Property | Decreased | | Cash 200 |
| 5. | Paid *X* (a creditor) Rs. 500 | *X* | Liability | Decreased | *X* 500 | |
| | | Cash | Property | Increased | | Cash 500 |
| 6. | Interest received Rs. 50 | Cash | Property | Increased | Cash 50 | |
| | | Interest | Income | Increased | | Interest 50 |

In the above representation we have shown in a consolidated form as to how each individual transaction will have its effects on the two A/cs and the asset and equity position. We see below the effect of each transaction on an individual A/c.

## LEDGER ACCOUNTS

**Cash Account**

| *Debit* Increases (+) | *Credit* Decreases (−) |
|---|---|
| 1. To Capital 20,000 | 2. By Goods 8,000 |
| 6. To Interest 50 | 3. By Furniture 4,000 |
| | 4. By Salaries 200 |
| | 5. By *X* 500 |

**Capital Account**

| *Debit* Decreases (−) | *Credit* Increases (+) |
|---|---|
| | 1. By Cash 20,000 |

**Furniture Account**

| *Debit* Increases (+) | *Credit* Decreases (—) |
|---|---|
| 3. To Cash 4,000 | |

***X***

| *Debit* Decreases (−) | *Credit* Increases (+) |
|---|---|
| 5. To Cash 500 | |

**Goods Account**

| *Debit* Increases (+) | *Credit* Decreases (−) |
|---|---|
| 2. To Cash 8,000 | |

**Interest (Revenue) Account**

| *Debit* Decreases (−) | *Credit* Increases (+) |
|---|---|
| | 6. By Cash 50 |

**Salaries Account**

| *Debit* Increases (+) | *Credit* Decreases (—) |
|---|---|
| 4. To Cash 200 | |

### Classification of Accounts

While discussing the accounting equations a little earlier, we observed the following kinds of accounts :

(*i*) Assets A/c or Property A/cs—All such A/cs which are the resources of the firm and are known as assets fall under this category Cash A/c, Goods A/c, Debtors A/c are the examples.

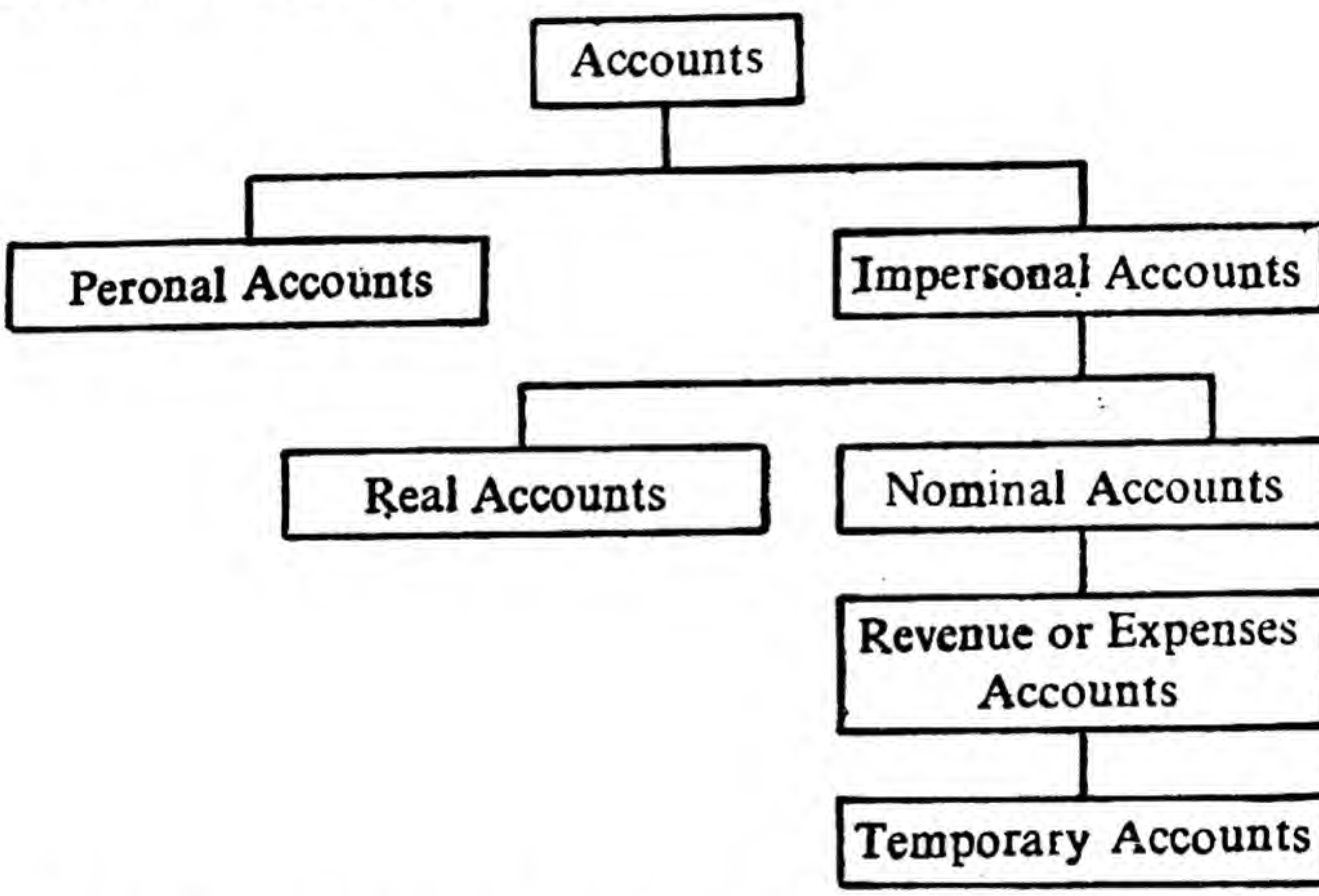
(*ii*) Creditors' equity A/cs or Liabilities A/cs—All such A/cs which are the creditors of the firm, *i e*., to whom the firm owes something (other than the owner) fall under this category. Examples are Loan A/c or Bank overdraft A/c, individual creditor's A/cs. Bills payable A/c, etc.

(*iii*) Owner's equity or capital A/c or Proprietor's A/c—Accounts relating to proprietor(s) fall under this category. Capital A/c(s) is the main example. Loan from the owner or his withdrawals (Drawings A/c) will also fall under the same category.

(*iv*) Revenue or Income A/cs—These A/cs relate to the income of the business, *e.g.*, Commission (earned) A/c, Discounts (received) A/c.

(*v*) Expenses A/cs—They relate to items of expenses or expenditure of the firm, like Salaries A/c, Wages A/c, Rent A/c, etc.

From the above it becomes clear that the accounts always relate to either *Persons* (including firms), *things* and *income* and *expenses* Accordingly another classification of A/cs has been made, which is more popular :




We shall now attempt to clearly explain each kind of A/c under this classification :

1. **Personal A/cs**—When the business transactions are made on credit, *i.e.*, when payments for goods or services are postponed for future dates or advances made for goods or services to be received in future, entries in such A/cs are made. When such an A/c refers to some person's name(s) it is called *natural personal* A/c, when it refers to some Incorporated Companies, Insurance Co. or Bank, etc., it is called *artificial personal or notional personal A/c*. And when it refers to outstanding or prepaid expenses it is called *representative personal A/c*. Outstanding rent A/c, prepaid insurance A/c, etc , are the examples of such representative personal A/cs

2. **Real A/cs.** These A/cs stand for the resources or the properties of the firm. These again can be *tangible real A/cs* like cash A/c, buildings A/c or *intangible real A/cs* which are of value to the firm, but intangible, like goodwill A/c, trade mark A/c, etc.

3. **Nominal A/cs**—All such A/cs which pertain to the income or expenses of the business concern fall under this category. Examples are salaries A/c, wages A/c, rent A/c, etc. They are also called revenue and expenses A/cs Sometimes they are also called temporary A/cs in America It is so because of the nature of such A/cs, which are always transferred to the Profit and Loss A/c. They have a temporary life till the preparation of Final A/cs.

**Recording transaction and rules thereof**

It has already been discussed earlier, that each transactions will involve two A/cs simultaneously, one on the Dr. side and the other on the Cr. side This system of recording one transaction at two places (one on the Dr. side and other on the Cr. side) is based on the dual aspect of the transaction and is called 'double entry system of book-keeping'.

**Rules of Double entry system**

A set of rules have been evolved to facilitate the application of the principle of duality, while recording transactions in the books of a firm. Under the double entry system, when a transaction takes place, one A/c is debited and another A/c is credited. We shall now see ***how and why*** such decisions are taken.

The A/cs have been classified under three categories : (*i*) Personal A/cs, (*ii*) Real A/cs, (*iii*) Nominal A/cs. The rules in respect of each kind are as under.

I The rules in respect of Personal A/cs are :
  (*i*) Debit the receiver ; and
  (*ii*) Credit the giver.

II. The rules in respect of Real A/cs are :
  (*i*) Debit what comes in ; and
  (*ii*) Credit what goes out.

III. The rules in respect of Nominal A/cs are :
  (*i*) Debit all expenses and losses : and
  (*ii*) Credit all gains and profits.

Note. A point may better be clarified here. It is never necessary in any transaction to apply both the rules pertaining to one kind of A/c. It may, it may not.

**Example**

Let us now see its application with the help of a few examples.

1. Goods sold to Sita Ram. 'Sita Ram' is the receiver (of goods) and simultaneously 'Goods' are going out. Hence Sita Ram's A/c will be debited and Goods A/c credited (Rule I (*i*) and Rule II (*ii*)).

2. Goods bought from Ram Lal. Here Goods have come in and Ram Lal is the giver. So Goods A/c will be debited and Ram Lal's A/c credited, (Rule II (*i*) and I (*ii*)).

3. Goods bought for cash. Here goods are coming in and cash is going out. So Goods A/c will be debited and cash A/c credited. [Rule II (*i*) and Rule II (*ii*).] In this case both the rules pertaining to Real A/c have been applied as both the A/cs are Real A/cs.
4. Paid salaries. Here salaries is an expense and cash is going out. So salaries A/c will be debited and cash A/c credited [Rule III (*i*) and Rule II (*ii*)].

**Balancing of Accounts**

All the accounts are closed and balanced at the end of the accounting period. For this purpose debit and credit sides of every account are separately added. The smaller total is subtracted from the larger total and thus the balance is found out. Two sides are equalled by putting this balance on the side with smaller total. If the total of the credit side is more, it is called a Credit balance and *vice versa*. If both the sides of an account are equal that account is not balanced but only totalled.

In case of Personal and Real A/cs, if the debit side is less, we write 'To balance c/d' on the debit side and if the credit side is less we write 'By Balance c/d' on the credit side. Then these balances are brought down to the next year by writing 'To Balance b/d' or 'By Balance b/d' on the opposite side. Nominal accounts are not balanced but are transferred to either Trading A/c or Profit and Loss A/c.

Balance of a Goods A/c shows gross profit or loss If business expenses are deducted from the gross profit it will show net profit. To find out gross profit the closing stock is also entered on the credit side of the Goods A/c. If credit side of the Goods A/c is greater, it will result in gross loss. Both, gross profit or gross loss will be transferred to the P. & L. A/c.

Let us have an illustration to show its posting in various A/cs and their balancing :

**Illustration 3-1**

The following are the transactions :

| 1981 | | | Rs. P. |
|---|---|---|---|
| Jan. | 1 | Anil Kumar started business with cash | 5,000·25 |
| ,, | 2 | Goods purchased from V. Prasad on Credit | 200·50 |
| ,, | 3 | Goods sold to Prem Chandra | 500·12 |
| ,, | 4 | Goods purchased from Sohan Lal for Cash | 400·75 |
| ,, | 5 | Paid for wages (Unproductive) | 50·16 |
| ,, | 15 | Goods purchased from Prem Chandra | 100·19 |
| ,, | 17 | Goods sold to Om Prakash | 50·75 |
| ,, | 21 | Goods purchased from Chiranjit | 300·60 |
| ,, | 23 | Paid for interest | 15·20 |
| ,, | 24 | Goods purchased from Om Prakash | 200·18 |
| ,, | 28 | Cash received from Prem Chandra | 100·50 |
| ,, | 31 | Cash paid to Chiranjit | 300·60 |
| ,, | 31 | Paid for Rent | 10·50 |
| ,, | 31 | Closing stock | 800·00 |

**Solution**

CAPITAL ACCOUNT

| Dr. Date | Particulars | L.F. | Amount | Date | Particulars | L.F. | Amount Cr. |
|---|---|---|---|---|---|---|---|
| | | | Rs. | | | | Rs. |
| 1981 Jan.31 | To Balance c/d | | 5,000·25 | 1981 Jan. 1 | By Cash A/c | | 5,000·25 |
| | | | 5,000·25 | | | | 5,000·25 |
| | | | | Feb.31 | By Balance b/d | | 5,000·25 |
| | | | | Feb. 1 | By Net Profit tr. from P&L A/c | | 72·79 |

CASH ACCOUNT

| Dr. | | | | | | Cr. |
|---|---|---|---|---|---|---|
| | | Rs. | | | | Rs. |
| 1981 Jan. 1 | To Capital A/c | 5,000·25 | 1981 Jan. 4 | By Goods A/c | | 400·75 |
| ,, 28 | To Prem Chandra | 100·50 | ,, 5 | ,, Wages A/c | | 50·16 |
| | | | ,, 23 | ,, Interest A/c | | 15·20 |
| | | | ,, 31 | ,, Chiranji t A/c | | 300·60 |
| | | | ,, 31 | ,, Rent A/c | | 10·50 |
| | | | ,, 31 | ,, Balance b/d | | 4,323·54 |
| | | 5,100·75 | | | | 5,100·75 |
| Feb. 1 | To Balance b/d | 4,323·54 | | | | |

GOODS ACCOUNT

| Dr. | | | | | | Cr. |
|---|---|---|---|---|---|---|
| | | | Rs. | | | Rs. |
| 1981 Jan. 2 | To V. Prasad | | 200·50 | 1981 Jan. 3 | By Prem Chandra | 500·12 |
| ,, 4 | ,, Cash A/c | | 400·75 | ,, 17 | ,, Om Prakash | 50·75 |
| ,, 15 | ,, Prem Chandra | | 100·19 | ,, 31 | ,, Balance c/d (Closing Stock) | 800·00 |
| ,, 21 | ,, Chiranjit | | 300·60 | | | |
| ,, 24 | ,, Om Prakash | | 200·18 | | | |
| ,, 31 | ,, Gross Profit tr. to P&L. A/c | | 148·65 | | | |
| | | | 1,350·87 | | | 1,350·87 |
| Feb. 1 | To Balance b/d | | 800·00 | | | |

PREM CHANDRA

| Dr. | | | | | | | Cr. |
|---|---|---|---|---|---|---|---|
| | | | Rs. | | | | Rs. |
| 1981 Jan. 3 | To Goods A/c | | 500·12 | 1981 Jan. 25 | By Goods A/c | | 100·19 |
| | | | | ,, 28 | By Cash | | 100·50 |
| | | | | ,, 31 | By Balance c/d | | 299·43 |
| | | | 500·12 | | | | 500·12 |
| Feb. 1 | To Balance b/d | | 299·43 | | | | |

**V. PRASAD**

| Dr. | | Rs. | | Cr. | Rs. |
|---|---|---|---|---|---|
| 1981 Jan. 31 | To Balance c/d | 200.50 | 1981 Jan. 2 | By Goods A/c | 200·50 |
| | | | Feb. 1 | By Balance b/d | 200·50 |

**RENT ACCOUNT**

| Dr. | | Rs. | | Cr. | Rs. |
|---|---|---|---|---|---|
| 1981 Jan. 31 | To Cash A/c | 10·50 | 1981 Jan. 31 | By P· & L. A/c | 10·50 |

**WAGES ACCOUNT**

| Dr. | | Rs. | | Cr. | Rs. |
|---|---|---|---|---|---|
| 1981 Jan. 5 | To Cash A/c | 50·1 6 | 1981 Jan. 31 | By P. & L. A/c | 50 16 |

**INTEREST ACCOUNT**

| Dr. | | Rs. | | Cr. | Rs. |
|---|---|---|---|---|---|
| 1981 Jan. 23 | To Cash A/c | 15·20 | 1981 Jan. 31 | By P. & L. A/c | 15·20 |

**OM PRAKASH**

| Dr. | | Rs. | | Cr. | Rs. |
|---|---|---|---|---|---|
| 1981 Jan. 17 | To Goods A/c | 50·75 | 1981 Jan. 24 | By Goods A/c | 200·18 |
| Jan. 31 | To Balance c/d | 149·43 | | | |
| | | 200·18 | | | 200·18 |
| | | | Feb. 1 | By Balance b/d | 149·43 |

**CHIRANJIT ACCOUNT**

| Dr. | | Rs. | | Cr. | Rs. |
|---|---|---|---|---|---|
| 1981 Jan. 31 | To Cash A/c | 300·60 | 1981 Jan. 21 | By Goods A/c | 300·60 |

**Standard Questions**

1. What is the object of preparing an account ? Give a specimen of it.

2. Classify Accounts on the basis of Accounting Equation.

3. What is meant by 'Double Entry System' ? Describe the three stages in Double Entry System of Book-keeping ?

4. Mention the classes into which Ledger Accounts are divided ? Give half a dozen instances of each of these accounts ? *(Prep. Punjab)*

5. Why the Double Entry System is regarded as the best system of Book-keeping ? *(Ravi Shankar)*

6. State and explain the principles of 'Double Entry System' of Book-keeping. Give its advantages.

7. "For every debit amount there is corresponding credit amount under the Double Entry System of Book-keeping."

Explain this statement with examples.

8. Explain the principles of Double Entry System of Book-Keeping What are its advantages.

9. (*i*) Explain "Every debit has got a credit and '*vice versa*'.

(*ii*) State the classification of ledger accounts with two examples of each. *(D.S.S.C.E. 1978)*

10. Define the Double entry system of Accounting. *(D.S.S C.E. (C) 1978)*

11. From the following particulars prepare Proprietor's Capital Account :

| | | |
|---|---|---|
| Oct. 1, 1978 | Commenced business with Cash | Rs. 20,000 |
| Dec. 1, 1978 | Net Loss as per P & L A/c | Rs. 1,800 |
| ,, ,, ,, | Drawings during the period | Rs. 1,500 |

*(D.S.S.C.E. 1978)*

# 4

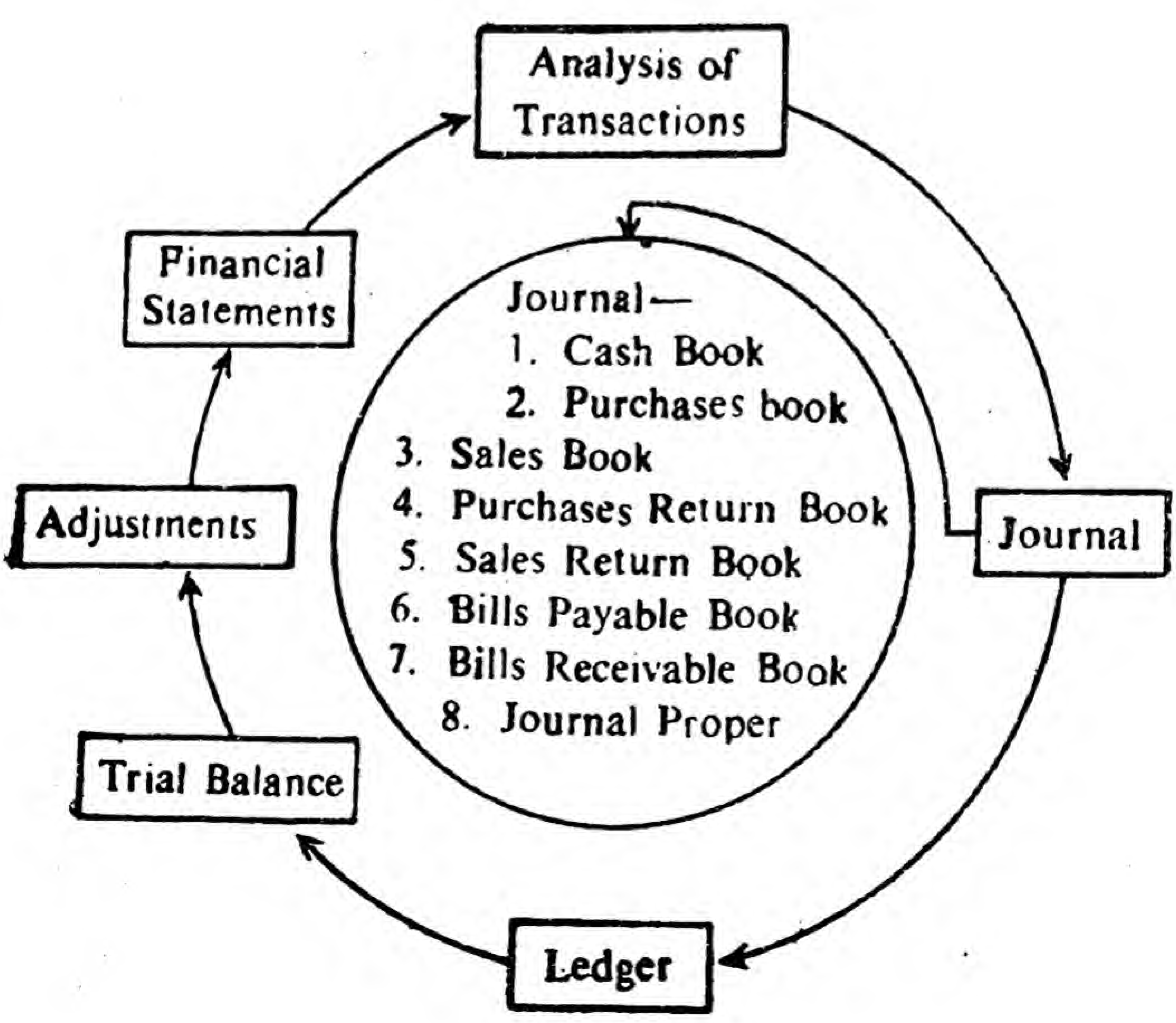
# Recording Transactions

## (Journal—Posting into Ledger and Voucher System)

### Introduction

In the previous chapter while discussing Ledger and its posting, we saw that the transactions were recorded directly in the two A/cs related with each business transaction. Such a system is not desirable and hence not in use. *Firstly*, because the related debits and credits are scattered over the entire ledger and it may not be possible to correlate debit and credit aspect of one transaction, if such a need arises *Secondly*, it is not possible to know the chronological (date wise) record of transactions, which may become necessary for a businessman to know. *Thirdly* the details of the entry are not available in ledger as there is no description as to *how and why* such an entry has been made. *Fourthly and lastly* there are greater chances of committing mistakes and fewer chances of their being detected easily.

(Accounting Cycle)



**Need and Definition of Journal**

In order to overcome these difficulties and for the sake of efficiency, a primary subsidiary book for recording the day to day transactions in a chronological order, giving the relevant supplementary information, is maintained. It is called journal. *Journal* is, therefore, a book of primary record and often called a 'book of original entry'. This is also called a 'Day book', perhaps because of its name having been derived from a French word 'Jour' meaning 'day'. *Prof. Carter* has defined Journal "as originally used, was a book of prime entry in which transactions were copied, in order of date from a memorandum or waste book The entries as they were copied, were classified into debits and credits, so as to facilitate their being posted afterwards in the Ledger." *Journal can thus be defined as a book wherein the A/cs to be debited and that to be credited are specified together with explanation for the entry* This explanation is called 'narration'. The record of any particular transaction in journal is called *journal entry* and the word is used as a noun. The process of recording is called *journalising* and the word is used as a verb.

**Ledger and Journal**

Ledger, called the principal book, remains the main book in accounting and provides the complete analytical record of all transactions connected with each person, property, income, or expenditure. Journal helps in preparation of various accounts in ledger. That is why it is called a 'book of original entry' and ledger a book of 'final entry'. The two serve different purposes.

**Advantages of Journal**

The use of journal provides the following advantages :

(*i*) Its use reduces the chances of errors in the books of accounts. As both the accounts affected by a transaction are recorded side by side, comparison can easily be made. But if direct entries are made in ledger, there is a possibility of a wrong amount being written either on debit or on credit side of any of the two accounts.

(*ii*) Narration in journal entries enables one to understand the entry properly. It can provide complete information about the transaction at a future date.

(*iii*) It provides a permanent record of all the transactions date-wise and can thus help in auditing also.

(*iv*) It also helps in locating errors, if they are so made.

(*v*) When journal is sub-divided into other subsidiary books (we shall read about them later) it helps administration of office work as the work can be conveniently divided among different persons.

**Limitations of Journal**

Inspite of it so many advantages, it has its own limitations :

(*i*) A single journal for a big business will become too big and unwieldly a book.

(*ii*) It fails to provide the information which normally will be required by a businessman, *e.g.*, cash balance in hand at the end of each day, total amount of debtors and creditors at a particular time, etc.

**Sub-division of Journal**

It is because of these limitations, that its use has been restricted for only those transactions that are not very many, and journal is divided into many subsidiary books. (We shall read about sub-division of journal soon after and details about these books in later chapters).

**Proforma of Journal**

The following is the proforma of journal :

JOURNAL

| Date | Particulars | L.F. | Dr. Amount | Cr. Amount |
|---|---|---|---|---|
| | | | Rs. | Rs. |

**Ruling of journal.** This book is divided into following five columns :

1. **Date.** In this column the date of the transaction is entered —The year is written on the top only once. For example, 5th Jan., 1981 and 7th Jan., 1981 will be recorded as follows :

1981
**Jan. 5**
" 7

2. (*a*) **Particulars.** In this column full detail of a transaction is recorded. Accounts to be debited are indicated by the word 'Dr.' and the accounts to be credited start with the word 'To'. (However the modern practice is more and more to omit writing of these words). In this column narration of the entry is also given.

(*b*) **Narration.** In every Journal entry full explanation of the transaction is given. This will help to know in future as to why was the account debited or credited. This explanation, below every Journal entry is called 'Narration'. It is necessary to write narration in Journal.

3. **Ledger Folio.** In this column the page number of the ledger is recorded where it has been posted from the Journal.

4. **Amount.** Two columns are prepared for the amount. In one column debit amount is written and in the other column credit amount is written.

**Journalising**

We shall now see the process of recording the journal entries in the Journal. This is called *Journalising*. Before an entry for any business transaction is recorded in Journal, the most important decision, as to which account is to be debited and which account is to be credited, is to be taken. This decision is based on the same basic rules of accounting which were discussed in the previous chapter on Ledger. Let us once again recapitulate them before proceeding further. These rules are :

*I. For Personal Accounts* :
- (*i*) Debit the receiver; and
- (*ii*) Credit the giver.

*II. For Real Accounts* :
- (*i*) Debit what comes in; and
- (*ii*) Credit what goes out.

*III. For Nominal Accounts* :
- (*i*) Debit all expenses and losses ; and
- (*ii*) Credit all gains and profits.

Now let us take some concrete sample business transactions and analyse them for purpose of journalising. The main aim here is to understand as to *how and why* a particular account is debited and the other is credited. In this analysis, emphasis has been laid on the 'particulars' column of the Journal only. The complete entries in Journal will be shown in the illustrations that will follow.

**Analysis of some sample business transactions**

1. **Sandeep Kumar started business with** Rs. 20,000. From accountancy point of view business is a separate entity. So the existence of the business is different from a businessman. The double effect of the above transaction will be that the Cash balance of the business will be increased by Rs. 20.000 on the one hand and the Capital of the business will also be created by Rs. 20.000 on the other hand. Cash is an asset and according to accounting equation any increase in the asset is debited. So the Cash A/c will be debited and increase in Capital is credited. So the Capital A/c will be credited. Following entry will be passed for the above transaction :

Cash Account Dr.
To Capital Account

2. **Goods purchased for Cash Rs. 6,000.** There are two accounts in this transaction, Goods A/c and Cash A/c. Both are Assets A/c. The result of this transaction will decrease in cash and increase in goods. Increase in an asset is debited, so the Goods A/c will be debited. Decrease in asset is credited, so the Cash A/c will be credited. Following entry will be passed :

**Goods Account Dr.**
**To Cash Account**

3. **Goods purchased from Sanjay Kumar on Credit for Rs. 3,000.** This transaction again involves two accounts, Goods A/c and Sanjay Kumar's A/c. Goods A/c is an Asset. Goods are increased by this transaction. So the Goods A/c will be debited. The other account is that of Sanjay Kumar 'Creditor' which increases the liabilities of the business. Such an increase is credited. Followinge entry will be passed :

Goods Account Dr.
    To Sanjay Kumar

4. **Goods purchased for Cash Rs. 2,000.** The double effect of this transaction will be that on the one side the assets in the form of goods will be increased and another asset, cash will be decreased. The transaction involves two accounts, Goods A/c and Cash A/c and both of them are Assets. Therefore, Goods A/c will be debited because stock of goods is increased and Cash A/c will be credited because Cash balance is reduced. Following entry will be passed :

Goods Account Dr.
    To Cash Account

5. **Goods sold to Anil Kumar on Credit Rs. 3,000.** This transaction affects two accounts—Goods A/c and Anil Kumar Debtor's A/c. Sale of goods will decrease the goods and decrease in an asset is credited So the Goods A/c will be credited. Goods have been sold on credit to Anil Kumar. So he becomes the debtor of the business. Debtors are our 'Assets' and any increase in assets is debited. So Anil Kumar's account will be debited. Following entry will be passed :

Anil Kumar Dr.
    To Goods Account

6. **Cash received from Hari Rs. 200.** Cash A/c and Hari's A/c are affected by this transaction. Cash has been increased and Cash A/c is an Asset. Increase in assets is debited, so Cash A/c will be debited. Hari has paid Cash. He was our debtor who is no more a debtor after paying Cash. Our asset has been reduced Decrease in assets should be credited. So Hari's A/c will be credited. Following entry will be passed :

Cash Account Dr.
    To Hari

7. **Received from Bank Rs. 5,000 as loan :** This transaction affects Cash A/c and Bank Loan A/c. Cash A/c is an asset and by borrowing cash the assets increase. So Cash A/c will be debited. Bank Loan A/c is a liability which should be credited. Following entry will be passed :

**Cash Account Dr.**
    **To Bank Loan A/c**

**8. Paid Salaries Rs. 200.** This transaction affects Salaries A/c and Cash A/c. Salaries paid will increase the expenses. So Salaries A/c will be debited. It also reduces the Cash balance of the business. Cash A/c is an asset. Any decrease in assets should be credited. So the Cash A/c will be credited. Following entry will be passed :

Salaries Account Dr.

To Cash Account

**9. Received Commission Rs. 50.** This will affect the Cash A/c and Commission A/c. Cash is increased which is an asset. It should be debited. Commission received is an income, it should be credited. Following entry will be passed :

Cash Account Dr.

To Commission Account

**10. Rent Outstanding.** There are certain transactions whose benefit has been received by the businessman but he has not yet paid for them. These are called outstanding expenses. It means those expenses which should have been paid so far but could not have been paid due to some reason or the other. Outstanding rent will increase the expenses of the business. So the Rent A/c will be debited. On the other hand liabilities of the firm are also increased. So the Rent Outstanding A/c, which represents the persons to whom the rent is to be paid, will be credited. Following entry will be passed :

Rent Account Dr.

To Outstanding Rent Account

Similarly if salaries are outstanding, the entry will be

Salaries Account

To Salaries Outstanding Account

11. **Goods worth Rs. 20 withdrawn by the propritor for his personal use.** The two-fold effect of this transaction will be that the Capital of the businessman will be reduced on the one hand and good form the business will also be reduced on the other hand, Cash or goods withdrawn by the proprietor for his personal use are called Drawings. Goods withdrawn for personal use will reduce the Capital, so Drawings A/c should be debited. On the other hand due to decrease in asset, Purchases A/c will be credited. Following entry will be passed :

Drawings Account Dr.

To Purchases Account

12. **Interest Charged on Capital.** Interest paid on Capital is an expense. Expenses of the business are increased by paying interest. Therefore Interest A/c should be debited. On the other hand the Capital of the business is increased. So the Capital A/c should be credited. Following entry will be passed :

Interest Account Dr.

To Capital Account

(13) **Depreciation Charged on Buildings Rs. 1,000—Original** entry of an asset is done at its cost price. But with the increase in business, its value is reduced. Depreciation of an asset is a business-expense. Increase in expenses are debited Therefore, Depreciation A/c will be debited and Buildings A/c will be credited because Building A/c is an asset and any decrease in assets is credited. Following entry will be passed—

| | | | |
|---|---|---|---|
| Depreciation Account | Dr. | | |
| To Buildings Account | | | |

(14) **Received from Ram Rs. 100 out of a loan of Rs. 500—** In business sometimes a part of the debt is not recovered. Such an amount is a business loss and written in Bad Debts A/c. Such a transaction affects three accounts, Cash A/c, Bad Debts A/c and Ram's A/c. Cash A/c will increase the assets, so it should be debited. Bad debt will increase the business loss, so it should also be debited. Ram who was our debtor is no more a debtor. Liabilities will be reduced, so they should be credited. Following entry will be passed—

| | | | |
|---|---|---|---|
| Cash Account | Dr. | 100 | |
| Bad Debts Account | Dr. | 400 | |
| To Ram | | | 500 |

**Illustration 4·1**

Journalise the following transactions :—

| 19°1 | | | Rs. |
|---|---|---|---|
| Jan. | 1 | Anil Kumar started business with cash | 10,000 |
| ,, | 3 | Goods purchased for cash | 3,000 |
| ,, | 5 | Goods purchased from Sunil Kumar | 2,000 |
| ,, | 7 | Goods sold for cash | 1,000 |
| ,, | 10 | Goods sold to Bhagwan Behari | 3,000 |
| ,, | 12 | Cash paid to Sunil Kumar | 1,000 |
| ,, | 17 | Cash received from Bhagwan Behri | 2,000 |
| ,, | 23 | Paid for wages | 50 |
| ,, | 25 | Furniture purchased from Ram Dass for cash | 200 |
| ,, | 28 | Paid for interest | 100 |
| ,, | 31 | Paid for salaries | 100 |

**Solution**

JOURNAL

| Date | Particulars | | L.F. | Dr. Amount | Cr. Amount |
|---|---|---|---|---|---|
| 1981 | | | | Rs. | Rs. |
| Jan. 1 | Cash A/c | Dr. | | 10,000 | |
| | To Capital A/c | | | | 10,000 |
| | (For Anil Kumar started Business) | | | | |
| „ 3 | Goods A/c | Dr. | | 3,000 | |
| | To Cash A/c | | | | 3,000 |
| | (For goods purchased for cash) | | | | |
| „ 5 | Goods A/c | Dr. | | 2,000 | |
| | To Sunil Kumar | | | | 2,000 |
| | (For goods purchased from Sunil Kumar) | | | | |
| „ 7 | Cash A/c | Dr. | | 1,000 | |
| | To Goods A/c | | | | 1,000 |
| | (For goods sold for cash) | | | | |
| „ 10 | Bhagwan Behari | Dr. | | 3,000 | |
| | To Goods A/c | | | | 3,000 |
| | (For goods sold to Bhagwan Behari) | | | | |
| „ 12 | Sunil Kumar | Dr. | | 1,000 | |
| | To Cash A/c | | | | 1,000 |
| | (For cash paid to him) | | | | |
| „ 17 | Cash A/c | Dr. | | 2,000 | |
| | To Bhagwan Behari | | | | 2,000 |
| | (For cash received from Bhagwan Behari) | | | | |
| | Carried Forward | | | 22,000 | 22,000 |

| | | | | |
|---|---|---|---|---|
| | Brought Forward | | 22,000 | 22,000 |
| ,,23 | Wages A/c Dr.<br>To Cash A/c<br>(For Wages paid) | | 50 | 50 |
| ,,25 | Furniture A/c Dr.<br>To Cash A/c<br>(For furniture purchased for cash) | | 200 | 200 |
| ,,28 | Interest A/c Dr.<br>To Cash A/c<br>(For interest paid) | | 100 | 100 |
| ,,31 | Salaries A/c Dr.<br>To Cash A/c<br>(For salaries paid) | | 100 | 100 |
| | Grand Total | | 22,450 | 22,450 |

**Explanation**

**Anil Kumar started Business.** The businessman never writes his own name in his books. The Capital invested in the beginning is written in the Capital A/c. This is a Personal A/c and represents the owner of the business. ~~The business receives Cash. Thus~~ according to the rule of Real A/c it should be debited and according to the rule of Personal A/c, Capital A/c should be credited

**Goods purchased for Cash.** The business receives goods and gives Cash. Two accounts are affected, Goods A/c and Cash A/c. Both are Real A/cs. According to the rule of Real A/c, goods received are debited and goods given are credited. So the Goods A/c will be debited and Cash A/c will be credited.

**Goods purchased from Sunil Kumar.** It implies that goods were purchased from Sunil Kumar on Credit. If the name of the seller is given and it is not mentioned that the goods are purchased for Cash, it should be assumed that the goods are purchased on credit. This transaction involves two accounts, one is Sunil Kumar's A/c which is a Personal A/c and the other is Goods A/c which is a Real A/c. So according to the rules Goods A/c should be debited and Sunil Kumar's A/c should be credited.

**Goods sold for Cash.** This transaction will affect the Goods A/c and Cash A/c. Both are real A/cs. Cash A/c will be debited and Goods A/c will be credited.

**Goods sold to Bhagwan Behari.** Here goods have been sold on Credit. Goods A/c is a Real A/c and goods goes out of the

business. It will be credited. Bhagwan Behari is the receiver. His account will be debited.

**Cash paid to Sunil Kumar.** Here Sunil Kumar is the receiver. His account is a Personal A/c. Therefore, it should be debited. Cash goes out of the business, so Cash A/c should be credited.

**Cash received from Bhagwan Behari.** This transaction will affect Bhagwan Behari's A/c and Cash A/c. Cash has been received and Cash A/c is a Real A/c. So it will be debited. Bhagwan Behari is the-giver. His Account will be credited.

**Paid Wages.** Wages A/c is a Nominal A/c and is an expense of the business. So Wages A/c will be debited Cash has been paid by the businessman and Cash A/c is a Real A/c. So it will be credited.

**Furniture purchased from Ram Das for Cash.** In this transaction Ram Das's name is given only for memory's sake because word 'Cash' is also given. Furniture has been received which is a real A/c. So it will be debited. Cash goes out of the business which is a Real A/c. So it will be credited.

**Paid for Interest.** Interest is a nominal A/c and a business expense. So it should be debited. Cash goes out of the business and it is a Real A/c. So it will be credited.

**Paid for Salaries.** Salaries A/c is a Nominal A/c and an expense of the business. So it will be debited. Cash goes out of the business and it is a Real A/c. So it will be credited.

**Compound Journal Entries**

Sometimes it so happens that on one particular date there are many transactions related to one person or of the same nature. Such transactions instead of writing in separate entries, are written in one single entry. Such entry is called Compound Journal Entry. Such entries are recorded in the following three ways—

(1) One account debits and many other accounts credit.

(2) One account credits and many other accounts debit.

(3) Many accounts debit and many other accounts credit.

**Illustration 4-2**

Journalise the following transactions in the books of Rajendra Kumar Gupta & Sons, New Delhi :—

Jan. 1, 1981

*Debit Balances.* Cash Rs. 2,000 ; Furniture Rs. 400 ; Closing Stock Rs. 2,000 ; Building Rs. 6,000.

*Debtors.* Anil Kumar Rs. 400 ; Harish Kumar Rs. 400 ; Santosh Gupta Rs. 600 ; Usha Gupta Rs. 600.

*Creditors.* Ramesh Gupta Rs. 600 ; Bhola Ram Rs. 1,000 ; Capital Rs. 10,800.

| | | | Rs. |
|---|---|---|---|
| 1981 | | | |
| Jan. | 1 | Goods sold to Rajni Kant | 300 |
| ,, | ,, | Goods sold to Pritpal Singh | 200 |
| ,, | ,, | Goods sold to Anil Puri | 300 |
| ,, | 5 | Cash paid to Bhola Ram | 200 |
| ,, | 15 | Cash received from Santosh Gupta | 570 |
| | | and allowed him discount | 30 |
| ,, | 16 | Paid for charity | 50 |
| ,, | ,, | Paid for stationery | 70 |
| ,, | ,, | Paid for postage | 30 |
| ,, | 20 | Cash Paid to Ramesh Gupta | 280 |
| | | and he allowed us discount | 20 |
| ,, | 21 | Goods sold to Sudama Lal | 700 |
| ,, | 25 | Goods sold to Banmali and allowed him trade discount 10% | 50 |
| ,, | 27 | Cash received from Sudama Lal in full settlement of his Account | 670 |
| ,, | 28 | Allowed interest on Capital @ 5% p.a. for one month | |
| ,, | 31 | Paid for salaries | 50 |
| ,, | ,, | Paid for rent | 100 |
| ,, | ,, | Closing stock | 1,000 |

**Solution**

| Date | Particulars | L.F. | Dr. Amount | Cr. Amount |
|---|---|---|---|---|
| 1981 | | | Rs. | Rs. |
| Jan. 1 | Cash A/c Dr. | | 2,000 | |
| | Furniture A/c ,, | | 400 | |
| | Stock A/c ,, | | 2,000 | |
| | Building A/c ,, | | 6,000 | |
| | Anil Kumar ,, | | 400 | |
| | Harish Kumar ,, | | 400 | |
| | Santosh Kumar ,, | | 600 | |
| | Usha Gupta ,, | | 600 | |
| | To Ramesh Gupta | | | 600 |
| | ,, Bhola Ram | | 12 4 | 1,000 |
| | ,, Capital A/c | | | 10,800 |
| | (For balances brought in from last year) | | | |
| ,, ,, | Rajni Kant Dr. | | 300 | |
| | Pritpal Singh ,, | | 200 | |
| | Anil Puri ,, | | 300 | |
| | To Goods A/c | | | 800 |
| | (For Goods sold to Rajni Kant, Pritpal Singh and Anil Puri on credit) | | | |
| ,, 5 | Bhola Ram Dr. | | 200 | |
| | To Cash A/c | | | 200 |
| | (For cash paid to him) | | | |
| ,, 15 | Cash A/c Dr. | | 570 | |
| | Discount A/c Dr. | | 30 | |
| | To Santosh Gupta | | | 600 |
| | (For cash received from Santosh Gupta and allowed him discount) | | | |
| | Total Carried Forward | | 14,000 | 14,000 |

| Date | Particulars | | L.F. | Rs. | Rs. |
|---|---|---|---|---|---|
| | Total Brought Forward | | | 14,000 | 14,000 |
| Jan 16 | Charity A/c | Dr. | | 50 | |
| | Stationery A/c | Dr. | | 70 | |
| | Postage A/c | Dr. | | 30 | |
| | To Cash A/c | | | | 150 |
| | (For cash paid for charity, stationery and postage) | | | | |
| „ 20 | Ramesh Gupta | Dr. | | 300 | |
| | To Cash A/c | | | | 280 |
| | To Discount A/c | | | | 20 |
| | (For cash paid to Ramesh Gupta and he allowed us discount) | | | | |
| „ 21 | Sudama Lal | Dr. | | 700 | |
| | To Goods A/c | | | | 700 |
| | (For goods sold to Sudama Lal) | | | | |
| „ 25 | Banmali | Dr. | | 45 | |
| Imp | To Goods A/c | | | | 45 |
| | (For goods sold to Banmali for Rs. 50 and allowed him 10% trade discount) | | | | |
| „ 27 | Cash A/c | Dr. | | 670 | |
| | Discount A/c | Dr. | | 30 | |
| Imp | To Sudama Lal | | | | 700 |
| | (For cash received from Sudama Lal in full settlement of his account) | | | | |
| „ 28 | Interest A/c | Dr. | | 45 | |
| | To Capital A/c | | | | 45 |
| | (For interest chagred on capital @ 5% P.A. for one month) | | | | |
| „ 31 | Salaries A/c | Dr. | | 50 | |
| | Rent A/c | Dr. | | 100 | |
| | To Cash A/c | | | | 150 |
| | (For rent and salaries paid) | | | | |
| | Grand Total | | | 16,090 | 16,090 |

N.B.—1. Balances of the last year have to be carried forward to the next year. Therefore all the assets are debited and all the liabilities are credited. For example—

Assets ... Dr.
  To Liabilities
(For assets and liabilities brought in from the last year)

This entry is called opening entry.

2. On 1st January goods were sold to Rajni Kant, Pritpal Singh and Anil Puri. This is a joint transaction. Therefore, we can pass one entry for all the three transactions. All the personal accounts will be debited and goods account will be credited.

3. On 25th January goods worth Rs. 50 were sold to Banmali. We allowed a trade discount of 10% on this. We shall pass an entry for Rs. 45 only because no entry is passed for trade discount. In such transactions only net amount is taken into consideration. Trade discount will be mentioned only in the narration.

4. On 21st goods worth Rs. 700 were sold to Sudama Lal. On 27th Rs. 670 were received in full settlement. This transaction involves a discount of Rs. 30. So Cash A/c will be debited with Rs. 670 and Discount A/c with Rs. 30. Sudama Lal's A/c will be credited with Rs. 700.

5. Amount is not given in the transaction of 28th January. It will be calculated at the rate of 5% p.a. for one month on the Capital mentioned above. It is necessary to provide interest on capital to find out the net profit.

6. No entry has been passed for the Closing Stock.

**Illustration 4-3**

Enter the following transactions in the Journal of Shri Ram Kumar :

| | | Rs. |
|---|---|---|
| (*i*) | Goods sold to Bhola Ram | 5,000 |
| (*ii*) | Bhola Ram declared insolvent ; received from his Official Receiver a first and final composition of 50 P. in a rupee | |
| (*iii*) | Charged Depreciation on Furniture | 500 |
| (*iv*) | Rent due to Landlord | 100 |
| (*v*) | Salaries due to Clerk | 200 |
| (*vi*) | Bought of Chaturvedi & Co. Furniture on credit | 300 |
| (*vii*) | Cash drew for private expenses | 500 |
| (*viii*) | Prince Behari who had bought goods worth Rs. 3,000 paid Rs. 2,700 in full settlement of his account | |
| (*ix*) | Goods purchased from Mathura Prasad and he allowed us 10% Trade discount | 500 |
| (*x*) | An old amount written off as bad debts in 1980 is recovered. | 250 |

**Solution**

| Date | Particulars | L.F. | Dr. Amount | Cr. Amount |
|---|---|---|---|---|
| | | | Rs. | Rs. |
| (i) | Bhola Ram Dr.<br>To Goods A/c<br>(For goods sold to Bhola Ram on Credit) | | 5,000 | 5,000 |
| (ii) | Cash A/c Dr.<br>Bad Debts A/c Dr.<br>To Bhola Ram<br>(For Bhola Ram, became insolvent and a first and final dividend of 50 P. in a rupee received from him) | | 2,500<br>2,500 | 5,000 |
| (iii) | Depreciation A/c Dr.<br>To Furniture A/c<br>(For depreciation charged on Furniture) | | 500 | 500 |
| (iv) | Rent A/c Dr.<br>To Outstanding Rent A/c<br>(For rent due to landlord) | | 100 | 100 |
| (v) | Salaries A/c Dr.<br>To Outstanding Salaries A/c<br>(For salaries due to clerk) | | 200 | 200 |
| (vi) | Furniture A/c Dr.<br>To Chaturvedi & Co.<br>(For furniture bought from Chaturvedi & Co.) | | 300 | 300 |
| (vii) | Drawings A/c Dr.<br>To Cash A/c<br>(For cash withdrawn for private expenses) | | 500 | 500 |
| (viii) | Cash A/c Dr.<br>Discount A/c<br>To Prince Behari<br>(For cash received from Prince Behari Rs. 2,700 and allowed him discount Rs. 300) | | 2,700<br>300 | 3,000 |
| | Total Carried Forward | | 14,600 | 14,600 |

| Date | Particulars | L.F. | Dr. Amount | Cr. Amount |
|---|---|---|---|---|
| | | | Rs. | Rs. |
| | Total Brought Forward | | 14,600 | 14,600 |
| (*ix*) | Goods A/c Dr.<br>To Mathura Prasad<br>(For goods purchased from Mathura Prasad for Rs. 500 and he allowed us trade discount 10%) | | 450 | 450 |
| (*x*) | Cash A/c Dr.<br>To Bad Debts Recovered A/c<br>(For the sum previously treated as Bad Debts, now recovered) | | 250 | 250 |
| | Grand Total | | 15,300 | 15,300 |

**Note 1.** In Entry No. 2 the amount has not been given. Bhola Ram was declared insolvent and he has paid a composition of 50 P. in the rupee. To find out the amount we shall have to find out the total goods sold to him. In entry No. 1 we sold him goods for Rs. 5,000. Out of this only Rs. 2,500 will be received and Rs. 2,500 will become bad debt. So it will be debited to Bad Debts A/c. Cash received will be debited to Cash A/c. The person concerned will be credited with the full amount.

**Note 2.** Sometimes it so happens that an amount which had been written off as bad debt is recovered. Transaction No. 10 is of this nature. In such a case, Cash A/c is debited, for cash has been received, and Bad Debts Recovered A/c, or Bad Debts Reserve A/c or Bad Debts A/c is credited.

## LEDGER

### Posting the Journal into Ledger

The form of a ledger account has already been discussed in earlier chapter. It was discussed as to how the transactions are written in the two accounts in Ledger—once on the debit side of one account and again on the credit side of another account.

As a rule no entry is posted directly into the Ledger. It is done through Journal. When we journalise a transaction, we write out in the Journal, as to which account is to be debited and which account is to be credited. The same information is transferred into the Ledger in the two concerned accounts. This process of transferring from the Journal to the Ledger is called *posting in the ledger*.

### Procedure of Posting

In the journal, we have the information as to which account is to be debited and which account is to be credited. To debit an account means that an entry on the debit side is to be made in that particular account. To credit an account means that an entry on

the credit side of that particular account is made. Now the things are quite simple. When an account is to be debited, we shall write on the debit side of that account, the name of the other account. The amount noted against the account to be debited in the journal is written in the amount column of the ledger. The word 'To' is always written before the name of the account on the debit side. When an account is to be credited, we shall write on the credit side of that account, the name of the other account. The amount noted against the account being credited (in journal) is written in the amount column. The word 'By' is always written before the name of the account on the credit side.

Let us now take an example. The posting of the following journal entry will be :

| | | | |
|---|---|---|---|
| Cash A/c | Dr. | 10,000 | |
| To Capital A/c | | | 10,000 |

While posting the above journal entry in the ledger, we shall write on the debit side of Cash A/c 'To Capital A/c'. On the credit side of the Capital A/c we shall write 'By Cash A/c'. The position in the two accounts in ledger will be as follows :

*Dr.* CASH ACCOUNT *Cr.*

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | To Capital A/c | | Rs. 10,000 | | | | |

*Dr.* CAPITAL ACCOUNT *Cr.*

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | By Cash A/c | | Rs. 10,000 |

**Posting of a compound journal entry**

In case of posting of a compound journal entry, it has to be remembered that entries are to be made in all the accounts that are to be debited or credited. As for example, in case of the following journal entry :

| | | | |
|---|---|---|---|
| Cash A/c | Dr. | 9,500 | |
| Discount A/c | Dr. | 500 | |
| To Anil Kumar | | | 10,000 |
| (For Cash received and discount allowed) | | | |

In this case both the accounts 'Cash A/c' and 'Discount A/c', will be debited by Rs. 9,500 and Rs. 500 respectively and 'Anil Kumar A/c, will be credited by Rs. 10,000 (Rs. 9,500+Rs. 500). It must be remembered that amount on the debit side should always be equal to the amount on the credit side. In this case Rs. 9,500 will appear on the debit side of 'Cash A/c and Rs. 500 on the debit side

of 'Discount A/c'. The credit side of 'Anil Kumar's A/c will show an equal amount of Rs. 9,500 plus Rs. 500. The position of the three accounts, *viz*, Cash A/c, Discount A/c and Anil Kumar's A/c will be as under :

*Dr.* CASH ACCOUNT *Cr.*

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | To Anil Kumar | | Rs.<br>9,500 | | | | |

*Dr.* DISCOUNT ACCOUNT *Cr.*

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | To Anil Kumar | | Rs.<br>500 | | | | |

*Dr.* ANIL KUMAR'S ACCOUNT *Cr.*

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | By Cash A/c<br>By Discount A/c | | Rs.<br>9,500<br>500 |

**Posting of opening entries**

While posting opening entries we write 'To balance b/d' on the debit side of the accounts to be debited and 'By balance b/d' on the credit side of the accounts to be credited.

Ledger posting of illustration No. 4-2, discussed earlier in this chapter will be as under. The Journal entries have already been solved with illustration No. 4-2. Students are advised to learn the posting in the ledger on the basis of Journal entries done earlier

## Ledger Posting of Illustration 4-2

### CASH ACCOUNT

*Dr.*

| Date | Particulars | L.F. | Amount | Date | Particulars | L.F. | Amount |
|---|---|---|---|---|---|---|---|
| 1981 | | | Rs. | 1981 | | | Rs. |
| Jan. 1 | To Balance b/d | | 2,000 | Jan. 5 | By Bhola Ram | | 200 |
| ,, 15 | To Santosh Gupta | | 570 | ,, 16 | ,, Charity A/c | | 50 |
| ,, 27 | To Sudama Lal | | 670 | ,, 16 | ,, Stationery A/c | | 70 |
| | | | | ,, 16 | ,, Postage A/c | | 30 |
| | | | | ,, 20 | ,, Ramesh Gupta | | 280 |
| | | | | ,, 31 | ,, Salaries A/c | | 50 |
| | | | | ,, 31 | ,, Rent A/c | | 100 |
| | | | | ,, 31 | ,, Balance c/d | | 2,460 |
| | | | 3,240 | | | | 3,240 |
| Feb. 1 | To Balance b/d | | 2,460 | | | | |

### GOODS ACCOUNT

*Dr.* *Cr.*

| Date | Particulars | L.F. | Amount | Date | Particulars | L.F. | Amount |
|---|---|---|---|---|---|---|---|
| 1981 | | | Rs. | 1981 | | | Rs. |
| Jan. 1 | To Stock b/d | | 2,000 | Jan. 1 | By Rajni Kant | | 300 |
| ,, 31 | To Gross Profit Transferred to P. &L. A/c | | 545 | ,, 1 | ,, Pritpal Singh | | 200 |
| | | | | ,, 1 | ,, Anil Puri | | 300 |
| | | | | ,, 21 | ,, Sudama Lal | | 700 |
| | | | | ,, 25 | ,, Banmali | | 45 |
| | | | | ,, 31 | ,, Stock c/d | | 1,000 |
| | | | 2,545 | | | | 2,545 |
| Feb. 1 | To Stock b/d | | 1,000 | | | | |

### FURNITURE ACCOUNT

*Dr.* *Cr.*

| Date | Particulars | L.F. | Amount | Date | Particulars | L.F. | Amount |
|---|---|---|---|---|---|---|---|
| 1981 | | | Rs. | 1981 | | | Rs. |
| Jan. 1 | To Balance c/d | | 400 | Jan. 31 | By Balance c/d | | 400 |
| Feb. 1 | To Balance c/d | | 400 | | | | |

**Dr.** **RAMESH GUPTA** **Cr.**

| Date | Particulars | | Amount | Date | Particulars | | Amount |
|---|---|---|---|---|---|---|---|
| 1981 | | | Rs. | 1981 | | | Rs. |
| Jan 20 | To Cash A/c | | 280 | Jan. 1 | By Balance b/d | | 600 |
| „ 20 | To Discount A/c | | 20 | | | | |
| „ 31 | To Balance c/d | | 300 | | | | |
| | | | 600 | | | | 600 |
| | | | | Feb. 1 | By Balance b/d | | 300 |

**Dr.** **BUILDING ACCOUNT** **Cr.**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1981 | | | Rs. | 1981 | | | Rs. |
| Jan. 1 | To Balance b/d | | 6,000 | Jan. 31 | By Balance c/d | | 6,000 |
| Feb. 1 | To Balance b/d | | 6,000 | | | | |

**Dr.** **ANIL KUMAR** **Cr.**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1981 | | | Rs. | 1981 | | | Rs. |
| Jan. 1 | To Balance b/d | | 400 | Jan. 31 | By Balance c/d | | 400 |
| Feb. 1 | To Balance b/d | | 400 | | | | |

**Dr.** **HARISH KUMAR** **Cr.**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1981 | | | Rs. | 1981 | | | Rs. |
| Jan. 1 | To Balance b/d | | 400 | Jan. 31 | By Balance c/d | | 400 |
| Feb. 1 | To Balance b/d | | 400 | | | | |

**Dr.** **SANTOSH GUPTA** **Cr.**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1981 | | | Rs. | 1981 | | | Rs. |
| Jan. 1 | To Balance b/d | | 600 | Jan. 15 | By Cash A/c | | 570 |
| | | | | „ „ | „ Discount A/c | | 30 |
| | | | 600 | | | | 600 |

**Dr.** USHA GUPTA **Cr.**

| Date | Particulars | | Rs. | Date | Particulars | | Rs. |
|---|---|---|---|---|---|---|---|
| 1981 Jan. 1 | To Balance b/d | | 600 | 1981 Jan. 31 | By Balance c/d | | 600 |
| Feb. 1 | To Balance b/d | | 600 | | | | |

**Dr.** BHOLA RAM **Cr.**

| Date | Particulars | | Rs. | Date | Particulars | | Rs. |
|---|---|---|---|---|---|---|---|
| 1981 Jan. 5 | To Cash | | 200 | 1981 Jan. 1 | By Balance b/d | | 1,000 |
| „ 31 | To Balance c/d | | 800 | | | | |
| | | | 1,000 | | | | 1,000 |
| | | | | Feb. 1 | By Balance b/d | | 800 |

**Dr.** CAPITAL ACCOUNT **Cr.**

| Date | Particulars | | Rs. | Date | Particulars | | Rs. |
|---|---|---|---|---|---|---|---|
| 1981 Jan. 31 | To Balance c/d | | 10,845 | 1981 Jan. 1 | By Balance b/d | | 10,800 |
| | | | | „ 28 | By Interest A/c | | 45 |
| | | | 10,845 | | | | 10,845 |
| | | | | Feb. 1 | By Balance b/d | | 10,845 |

**Dr.** RAJNI KANT **Cr.**

| Date | Particulars | | Rs. | Date | Particulars | | Rs. |
|---|---|---|---|---|---|---|---|
| 1981 Jan. 1 | To Goods A/c | | 300 | 1981 Jan. 31 | By Balance c/d | | 300 |
| Feb. 1 | To Balance b/d | | 300 | | | | |

**Dr.** PRITPAL SINGH **Cr.**

| Date | Particulars | | Rs. | Date | Particulars | | Rs. |
|---|---|---|---|---|---|---|---|
| 1981 Jan. 1 | To Goods A/c | | 200 | 1981 Jan. 31 | By Balance c/d | | 200 |
| Feb. 1 | To Balance b/d | | 200 | | | | |

**Dr.** ANIL PURI **Cr.**

| Date | Particulars | Rs. | Date | Particulars | Rs. |
|---|---|---|---|---|---|
| 1981 Jan. 1 | To Goods A/c | 300 | 1981 Jan. 31 | By Balance c/d | 300 |
| Feb. 1 | To Balance b/d | 300 | | | |

**Dr.** DISCOUNT ACCOUNT **Cr.**

| Date | Particulars | Rs. | Date | Particulars | Rs. |
|---|---|---|---|---|---|
| 1981 Jan. 15 | To Santosh Gupta | 30 | 1981 Jan. 20 | By Ramesh Gupta | 20 |
| Jan. 27 | To Sudama Lal | 30 | Jan. 31 | By P.&L. A/c | 40 |
| | | 60 | | | 60 |

**Dr.** CHARITY ACCOUNT **Cr.**

| Date | Particulars | Rs. | Date | Particulars | Rs. |
|---|---|---|---|---|---|
| 1981 Jan. 10 | To Cash A/c | 50 | 1981 Jan. 31 | By P.&L. A/c | 50 |

**Dr.** STATIONERY ACCOUNT **Cr.**

| Date | Particulars | Rs. | Date | Particulars | Rs. |
|---|---|---|---|---|---|
| 1981 Jan 16 | To Cash A/c | 70 | 1981 Jan. 31 | By P.&L. A/c | 70 |

**Dr.** POSTAGE ACCOUNT **Cr.**

| Date | Particulars | Rs. | Date | Particulars | Rs. |
|---|---|---|---|---|---|
| 1981 Jan. 16 | To Cash A/c | 30 | 1981 Jan. 31 | By P.&L. A/c | 30 |

**Dr.** SUDAMA LAL **Cr.**

| Date | Particulars | Rs. | Date | Particulars | Rs. |
|---|---|---|---|---|---|
| 1981 Jan. 21 | To Goods A/c | 700 | 1981 Jan. 27 | By Cash A/c | 670 |
| | | | „ 27 | By Discount | 30 |
| | | 700 | | | 700 |

Dr. **BANMALI** Cr.

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1981<br>Jan. 25 | To Good s A/c | | Rs.<br>45 | 1981<br>Jan. 31 | By Balance c/d | | Rs.<br>45 |
| Feb. 1 | To Balance b/d | | 45 | | | | |

Dr. **INTEREST ACCOUNT** Cr.

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1981<br>Jan. 28 | To Capital A/c | | Rs.<br>45 | 1981<br>Jan. 31 | By P.& L A/c | | Rs.<br>45 |

Dr. **SALARIES ACCOUNT** Cr.

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1981<br>Jan. 31 | To Cash A/c | | Rs<br>50 | 1981<br>Jan 31 | By P.&L. A/c | | Rs.<br>50 |

Dr. **RENT ACCOUNT** Cr.

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1981<br>Jan. 31 | To Cash A/c | | Rs.<br>100 | 1981<br>Jan. 31 | By P.&L. A/c | | Rs.<br>100 |

**Voucher System of Accounting**

All the transactions that take place, are recorded in the books of the businessman. However, these transactions are not recorded only on the basis of verbal information. There has to be some solid proof of the happening of the event, *viz.* the transaction. 'Any business paper that is the authority for a book-keeping entry is commonly called a voucher', and the system of recording transactions from these vouchers, in the books of accounts is called the voucher system of accounting.

Voucher is a documentary evidence in support of a business transaction. It is a documentary evidence by which the accuracy of the book entry may be substantiated. It may be a receipt, a counterfoil of a receipt book, an invoice, bank pay-in-slip, bought note, sold note, order book, wage sheet, gate keeper's book or some correspondence.

Voucher system of accounting facilitates auditing—both internal and external. Vouching means to substantiate an entry in the books of accounts not only with any documentary evidence such as receipts,

etc., but also to see that the transactions have been properly recorded and entered in the books of accounts and have been duly authorised. Vouching means testing the truth of entries recorded in books of original entry. The object of vouching is to find out the accuracy of the entries appearing in the books of accounts.

**Special features of Vouchers**

Vouchers have the following features :

(*i*) Voucher is a business document.

(*ii*) Voucher authorises the book-keeper to record the entries in books of accounts.

(*iii*) Every voucher is serially numbered and dated.

(*iv*) Every transaction must be supported by a voucher only once.

(*v*) Some vouchers are prepared by the trader himself whereas others are received by him from others.

(*vi*) Some vouchers represent losses and expenses while some others represent gains and profits.

(*vii*) All the vouchers are authenticated by some competent authority.

**Objects of Vouchers**

There are two types of objects or purposes that the vouchers serve. They are :

(*A*) Primary ; (*B*) Subsidiary.

(*A*) The primary objective of a voucher is to provide documentary evidence in support of a transaction. It provides the authority for recording the transaction, in the way it has been recorded, in the books of accounts.

(*B*) **Subsidiary objectives.** Though the main purpose is providing legal proof of the transaction, yet it serves many other purposes, *e.g.* :

(*i*) **Control on payments.** All payments either by cash or by cheque are always made on the basis of vouchers, which have been duly authorised by senior management personnel, who has a control on payments. It thus reduces the chances of fraud and misappropriation. In case some fraud or misappropriation takes place, it can easily be located.

(*ii*) **Clarification of the debit and the credit side of accounts.** A voucher often indicates clearly as to which account is to be debited and which account is to be credited. This facilitates posting in the appropriate books of accounts. Under slip-system the entries are recorded only on the basis of such vouchers.

(*iii*) **Fixing responsibility.** Every voucher is signed and authorised by a competent authority. As such responsibility can easily be fixed in case of mistakes, embezzelement or fraud.

*(iv)* **Help in auditing.** It helps the auditors to check the authenticity of the records and the books of accounts.

**Advantages of Voucher System**

Voucher system has proved its usefulness specially in big business concerns. The following are the important advantages of the voucher system :

*(i)* It reduces the chances of errors in posting ledger. Debit and credit vouchers are usually of different colours and as such the chances of wrong postings are reduced.

*(ii)* Voucher system ensures correctness of payment and also ensures that the payment is made to the person to whom it is due.

*(iii)* Payment voucher contains complete information in respect of the transaction and payment.

*(iv)* All the vouchers are serially numbered and dated. They are recorded in the voucher register. At any particular moment, all the information in respect of any transaction can be found from these vouchers.

*(v)* Unpaid voucher file serves the purpose of creditors ledger and as such there is no need to maintain a separate register for it.

*(vi)* Payments are made only for those vouchers which have been duly sanctioned and authorised. As such it controls all the cash payments.

*(vii)* Voucher jackets are ured for keeping invoices and other business documents. These documents are properly classified and kept.

**Disadvantages of Voucher System**

The following are the main defects of voucher system :

*(i)* No payment can be made without preparing a voucher and getting it approved.

*(ii)* The overall position of a customer's account cannot be found out from the vouchers file.

*(iii)* Accounting of partial payments, purchase returns, and discounts, etc., are more difficult under this system.

On the basis of the above, it is said that it is difficult for a small business unit to use the voucher system.

**Standard Questions**

1. What is Journal ? What is the role of Journal in Book-keeping?
2. What do you understand by the term 'Narration' ?
3. Explain the term 'Compound Journal Entries'.

   *Or*

   'Is it possible to combine two or more transactions in a single entry in Journal ?'

4. In which account are sums withdrawn by the proprietor for private expenses recorded ?

5. What is Journal ? Which transactions are usually recorded in it ? Give three examples of such transactions ?

6. What do you understand by Books of Original Entry ? Can every transaction be recorded through the Journal ?

7. What do you mean by Vouchers ? Explain their characteristics and objects.

8. Explain the Voucher System of Accounting. What are its advantages and disadvantages ?

9. Indicate the alternative which you consider to be correct in each of the following cases :—

   (*i*) Sale of goods to Raj for Cash should be debited to : (*a*) Raj's account ; (*b*) Cash account ; (*c*) Sales account.

   (*ii*) Rs. 800 received from Mohan whose account was previously written off as bad debts should be credited to : (*a*) Mohan's account ; (*b*) Bad debts account ; (*c*) Bad debts recovered account.

   (*iii*) Payment of Rs. 250 as wages to workmen should be dobited to : (*a*) Wages account ; (*b*) Repairs account ; (*c*) Machinery account.

   (*D.S.S.C., Exam. 1978*)

10. What do you mean by a voucher system ? Explain its main advantages

    (*D.S.S.C. Exam., 1978 & 1979*)

11. State the objectives of Voucher System.

    (*D.S.S.C., Exam 1979*)

**Practical**

1. 1981

| | | | Rs. |
|---|---|---|---|
| Jan. | 1 | Sunil Kumar started business with cash | 2,000 |
| ,, | 2 | Goods purchased from Anil Kumar | 200 |
| ,, | 10 | Goods sold to Pramod Kumar | 150 |
| ,, | 16 | Wages paid | 20 |
| ,, | 28 | Cash received from Pramod Kumar | 150 |
| ,, | 31 | Cash paid to Anil Kumar | 200 |
| ,, | 31 | Closing stock Rs. 100 | |

**Ans.** Grand Total=Rs. 2,720.

**Note—No entry will be made of closing stock.**

2. Prepare Journal from the transactions given below :—

| | | | Rs. |
|---|---|---|---|
| 1981 | | | |
| March | 1 | Hem Chandra Gupta started business | 10,000 |
| ,, | 5 | Goods purchased from Satish | 1,000 |
| ,, | 7 | Goods purchased from Satish on credit | 200 |
| ,, | 15 | Goods purchased from Satish for cash | 2,000 |
| ,, | 18 | Sold goods to Harish Kumar | 200 |
| ,, | 20 | Goods sold to Harish Kumar on credit | 100 |
| ,, | 22 | Goods sold to Harish Kumar for cash | 1,000 |
| ,, | 25 | Paid for salaries | 200 |
| ,, | 28 | Paid for stationery | 25 |
| | | Closing Stock Rs. 2,000 | |

Ans. Grand Total=Rs. 14,725.

Enter the following transactions in the Journal :—

| | | | Rs. |
|---|---|---|---|
| 1981 | | | |
| Jan. | 1. | Hem Chandra Gupta started business with cash | 15,000·00 |
| ,, | 3 | Goods purchased from Prince Behari | 1,000·00 |
| ,, | 5 | Goods purchased for cash | 2,000·00 |
| ,, | 6 | Sold goods to Santosh Gupta | 1,000·00 |
| ,, | 10 | Goods sold to Kailash Gupta for cash | 3,000·00 |
| ,, | 15 | Paid for Cartage | 20·00 |
| ,, | 18 | Paid for Postage | 05·70 |
| ,, | 21 | Goods returned by Santosh Gupta | 200·00 |
| ,, | 25 | Goods returned to Prince Behari | 100·00 |
| ,, | 28 | Cash received from Santosh Gupta | 300·00 |
| ,, | 29 | Cash paid to Rajendra Kumar as loan | 1,000·00 |
| ,, | 30 | Cash paid to Prince Behri | 500·00 |
| ,, | 31 | Paid for Rent | 20·00 |
| ,, | 31 | Paid for Salaries | 10·00 |
| ,, | 31 | Paid for Light and Water | 10·00 |
| | | Closing Stock Rs. 1,500 | |

Ans. Grand Total=Rs. 24,165·70.

Prepare Journal from the following transactions :—

| | | | Rs. |
|---|---|---|---|
| 1981 | | | |
| July | 1 | Harish Kumar Gupta started business with cash | 10,000 |
| ,, | 5 | Ram Kumar sold goods to us | 2,000 |
| ,, | 10 | Anil Kumar purchased goods from us | 1,000 |
| ,, | 15 | Bought goods from Rajendra Kumar | 1,500 |

| | | | |
|---|---|---|---|
| July | 17 | Bought of Rajendra Kumar | 2,000 |
| ,, | 18 | Cash paid to Ram Kumar | 500 |
| ,, | 19 | Cash paid to Rajendra Kumar | 200 |
| ,, | 20 | Cash paid by Anil Kumar | 100 |
| ,, | 21 | Paid for charity to Arya School | 200 |
| ,, | 22 | Paid for Insurance Premium | 50 |
| ,, | 23 | Paid for Brokerage | 10 |
| ,, | 31 | Paid for Rent | 50 |
| ,, | 31 | Paid for Salaries | 100 |
| ,, | 31 | Paid for Wages | 20 |
| ,, | 31 | Paid for Cartage<br>Closing stock Rs. 5,000 | 10 |

**Ans.** Grand Total=Rs. 17,740.

**5.** Journalise the following transactions in the books of Shri Vijay Kumar Satyarthi :–

1. Harish Kumar is declared insolvent. Received from his Official Receiver a first and final composition of 60 P. in the rupee on a debt of Rs. 2,000.
2. Sushil Kumar has compounded with his creditors. I have accepted a composition of 62 P. in the rupee on a debt of Rs. 4,800 due from him.
3. Anil Kumar who owed me Rs. 1,000 has failed. He pays me a composition of 31 P. in the rupee.
4. Vijay Kumar is declared insolvent. Received from his Official Receiver a first and final composition of 31 P. in the rupee on a debt of Rs. 1,000.
5. Ram Lal Malhotra is declared insolvent. A final composition of 25 P. in the rupee is received from his estate out of Rs. 4,000.

**Ans.** Grand Total=Rs. 12,800.

**6.** Journalise the following transactions :—

| 1981 | | | Rs. |
|---|---|---|---|
| Jan. | 1 | Girdhari Lal commenced business with cash | 15,000 |
| ,, | 3 | Goods purchased for Cash | 2,000 |
| ,, | 4 | Bought of Hari Ram | 500 |
| ,, | 8 | Furniture purchased from Murari Lal for cash | 100 |
| ,, | 9 | Furniture purchased from Murari Lal | 500 |
| ,, | 12 | Cash paid to Hari Ram in full settlement of his account | 480 |
| ,, | 15 | Goods purchased from Anil Gupta and he allowed us 10% trade discount. | 700 |

| | | | |
|---|---|---|---|
| Jan | 20 | Cash paid to Anil Gupta and he allowed us discount | 600<br>30 |
| ,, | 21 | Prince Behari bought from us | 200 |
| ,, | 22 | Cash paid by Prince Behari | 100 |
| ,, | 25 | Prince Behari became insolvent, a final composition of 31 P. in the rupee received from his Official Receiver out of a debt of Rs. 100 | |
| ,, | 26 | Paid for Miscellaneous Expenses | 50 |
| ,, | 28 | Withdrawn by Girdhari Lal for his personal use | 200 |
| ,, | 31 | Charged interest on capital @ 5% p.a. for one month<br>Closing stock for Rs. 4,000. | |

**Ans.** Grand Total=Rs. 20,622·50.

**7.** Journalise the following transactions :—

| | | |
|---|---|---|
| 1. | Charged depreciation on furniture | 200 |
| 2. | Charged depreciation on Machinery | 500 |
| 3. | Salaries due to clerks | 100 |
| 4. | Rent due to Landlord | 150 |
| 5. | Wages outstanding | 120 |
| 6. | Sunil Kumar compounded with his debtors. Accepted a composition of 35 P. in the rupee out of a debt of Rs. 1,000. | |
| 7. | Received cash for a Bad Debt written off last year | Rs. 300 |
| 8. | Charged interest on capital @ 5% per annum (capital=Rs. 10,000) for one month. | |

**Ans.** Grand Total=Rs. 2,411·67.

**8.** Journalise the following transactions which took place in the sole proprietory business of Shri Tygaraja Mudaliar :—

(a) M. Sundarsanam who owes Rs. 2,850 pays Rs. 2,775 in full settlement.

(b) M/s Adarkar & Co. who owed Rs. 6,000 become insolvent. Only 30% of the amount due is realised.

(c) Received cheque from J. Peterson Rs. 5,450. Allowed him discount Rs. 150.

(d) Withdrew for domestic use Rs. 900.

(e) Issued cheque in favour of M/s Khurshid Ali & Sons on account of the purchase of a machinery, Rs. 7,500.

(f) Paid Rao & Co. Rs. 490 in full settlement of a debt of Rs. 500.

(g) Returned goods to Vardhman Spinning Mill Ltd. of the value of Rs. 3,500.

**9.** Journalise the following transactions :—

(1) Bought goods on credit from *A* Rs. 200.

(2) Goods returned by *B* Rs. 25.

(3) Paid Carriage inwards Rs. 5

(4) Cheque of Rs. 70 received from *C* in settlement of a debt of Rs. 75 returned dishonoured.

(5) Paid Insurance Rs. 15.

(6) Sale of Typewriter for Rs. 150.

(7) Rs. 125 owing by *M* written off as bad debts.

(8) Drew three months bill on *N* for Rs. 200.

(9) Sold goods Rs. 125 to *X* on credit.

**10.** Journalise the following :

(*i*) Ram, who owed me Rs. 500 has failed to pay the amount. He pay me a compensation of 25 P. in the rupee.

(*ii*) Received cash from Shyam for a bad debts written off last year.

(*S.S.C. Delhi, 1980*)

# 5

# Sub-Division of Journal

Journal is considered the book of original entry, as all the transactions that take place are first recorded in this book. In the beginning, this was the only book of original entry. But, because of innumerable number of business transactions that take place every day and because of limitations the Journal has, it was realised that it would be convenient and more purposeful to sub-divide the Journal on some suitable basis, which could provide complete information in respect of various aspects of business transaction. For example, it would be difficult to know the exact amount that should be in hand at a particular time, or it may not be possible to find as to how much goods have been bought or sold on a particular day or over a specified period. Keeping this difficulty in view, the Journal has been sub-divided into many subsidiary books to serve the various purposes and to provide readily various informations required by the businessman. This is called practical system of accounting, as it is more practical, convenient and can easily and readily provide the required information.

It is also essential to learn at this stage as to how the entire system of keeping accounts serve the purpose of the trader in finding out net profit over a certain period of time, usually a year. The process of maintaining the accounts during that period is a complete unit in itself, which is repeated time again and agian. This is commonly known as the 'accounting cycle' which repeats itself year after year till the business continues.

It has been stated earlier that Ledger is the main book of accounts. It has also been stated that as a rule no direct entries (postings) are made in Ledger. All the transactions are first recorded in the book of original entry, *i.e.*, Journal, from where they are posted in the appropriate accounts in the Ledger. To record all the transactions in a single Journal, will not only be cumbersome and inconvenient, but it will also be not possible to get readily the informations which may be required by the trader from time to time. That is why the Journal has been sub-divided into many subsidiary books. The main reasons for doing so are :

(*i*) Journal will become too bulky a book, if all the transactions are recorded into it.

(*ii*) Only one person can write Journal at a time. As such division of labour is not possible.

(*iii*) It does not provide classified information.

*(iv)* With sub-division of Journal, many persons can do the work of writing books simultaneously. This division of work will lead to efficiency as well.

It is because of these reasons that Journal has been sub-divided into various books which are called 'Sub-divisions of Journal' or 'Special Journals' or 'Special Purpose Journals' or 'Subsidiary Books.' Most common are the following sub-divisions :—

(*i*) **Cash Book** : for recording all the cash transactions.

(*ii*) **Purchases Book :** for recording all the credit purchases.

(*iii*) **Sales Book :** for recording all the credit sales.

(*iv*) **Purchase Returns Book** . this is also called 'Returns Outward Book', and is meant for recording all the returns of goods purchased on credit.

(*v*) **Sales Returns Book** : this is also known as 'Returns Inward Book', and used for recording all the returns of goods sold on credit.

(*vi*) **Bills Payable Book :** for recording bills of exchange issued to the creditors in lieu of payments due to them.

(*vii*) **Bills Receivable Book** : for recording bills of exchange received from customers in lieu of payments due from them.

(*viii*) **Journal Proper :** Since most of the business transactions will be covered by other books, it is meant only for such transactions which cannot be recorded in any of the other sub-division. That is all those miscellaneous transactions for which there is no special purpose subsidiary book, will be recorded in this Journal. The following type of transactions are recorded in Journal Proper :

(*a*) **Opening entries** . When the new set of books is started in the beginning of the year, the old accounts are opened a fresh with their previous balances. The entry is made in the Journal from the Balance Sheet.

(*b*) **Closing entries** : Nominal accounts are closed by transferring them to Trading A/c or Profit and Loss A/c. This is done with the help of the closing entries at the end of the financial year in the Journal.

(*c*) **Adjustment entries** : Expenses outstanding or prepaid are to be adjusted to arrive at true net profit, as also the depreciation. These entries are passed in Journal at the end of financial year.

(*d*) **Transfer entries** . When a particular account is to be transferred to some other account, it is done through transfer entry in Journal.

(*e*) **Rectification entries** . If some accounting error has been made, it is corrected when located through rectification entries in Journal.

**We shall now study these subsidiary books one by one. Before doing so let us see the advantages of special Journals. The advantages of maintaining these special Journals or subsidiary books are : —**

(*i*) **Division of accounting work :** Since there will be about eight subsidiary books in place of single Journal, the work can be conveniently divided among many persons, who can do the accounting work simultaneously.

(*ii*) **Increase in efficiency :** Division of work will lead to specialisation, which in its turn will lead to increase in efficiency.

(*iii*) **Prompt and accurate information :** Separate registers are maintained for different types of transactions. As such information in respect of them can be easily and readily collected whenever required.

(*iv*) **Saves time :** From Journal each transaction is posted twice in Ledger, whereas a single entry is recorded for total purchases and for total sales from the Purchases Book and Sales Book. This saves the time, labour and space.

(*v*) **Convenience in checking and auditing :** It is easier to locate errors in accounting under this system. Even frauds can be checked by using various subsidiary books.

(*vi*) **Innovations can be used in the form of subsidiary books.** The columns, and rulings of these subsidiary books can be modified according to the needs of the business. By constant use the form can be improved upon.

Before we start discussing each of these subsidiary books, it must be remembered that the use of these books in no way affects the double entry system of accounting The concept of duality in accounting continues to hold good. These subsidiary books do not disturb it and are beyond its scope. The purpose of these books is to record in the first instance the various types of business transactions, from where they are transferred to 'Ledger'—the principal book of accounts It is the Ledger where the impact of double entry system is clearly visible. That is why these books are called books of first entry or primary books.

We shall now discuss how various transactions are recorded in these subsidiary books, or we may say how these various special purpose Journals are maintained.

## Cash Book

Andrew Munro says "Cash book is used for recording the receipts and payments of money in coins, notes, cheques, postal orders, bank drafts, etc." Every businessman is keenly interested in knowing his cash positions at all times. Cash transactions constitute the major transactions of most of the businessmen. As such cash transactions assume greater importance and a separate book called Cash Book is maintained to record all cash transactions.

### A subsidiary book and also a principal book of accounts

A special feature which distinguishes cash book from other subsidiary books is that whereas all the other subsidiary books serve as *only subsidiary books*, the cash book serves both the purpose of a subsidiary book in so far as it is a book of primary entry of all cash

transactions as also the purpose of the principal book of accounts, *viz.*, Ledger. This is on account of the fact that no separate cash account is opened in Ledger and the cash book itself serves the purpose of cash account. It is because of this reason that cash book is often called a 'subsidiary book, and the principal book of accounts.

**Types of Cash book**

There are different types of cash books maintained according to the needs of the business. Usually the following are the types :

(*i*) Simple Cash book.

(*ii*) Cash book with discount column.

(*iii*) Cash book with discount and bank column.

There is yet another type known as 'Petty cash book' for recording petty cash transactions. This is purely a type of record book or memorandum book. The consolidated information provided by this book is posted with the help of the Journal entries. We shall learn about it in pages to follow.

**Form of Cash Book**

There are two parts of a Cash Book. Left part is called Debit or Receipts side and right part is called Credit or Payments side. Both these sides are divided into Date, Particulars, L.F., and Amount columns. You will observe that the form is just like that of an account in the Ledger.

**Simple Cash Book**

This cash Book is used by petty traders. Generally, those traders who do not keep any account in the bank and do not allow any discount, use this Cash Book. Money received is written on the Receipts side and money paid is written on the Payments side. Its form is as follows—

***Receipts*** FORM OF SIMPLE CASH BOOK ***Payments***

| Date | Particulars | L.F. | Amount | Date | Particulars | L.F. | Amount |
|---|---|---|---|---|---|---|---|
| | | | Rs. | | | | Rs. |
| | | | | | | | |

**Rules of Recording in Cash Book.** Cash received and Cash paid are recorded in the Cash Book. Cash A/c is an Asset. When we receive Cash, Assets of the business increase. Increase in Assets are debited. Thus the Cash received by the businessman is debited in the Cash Book. When he pays Cash, Assets of the business decrease and decrease in Assets are credited. Thus Cash paid is credited in the Cash Book. You will observe that rules are the same at that of Ledger, *viz.*, Debit what comes in and Credit what goes out.

Now, let us have a simple illustration :

**Illustration 5-1**

Write the following transactions in the simple Cash Book :—

| | | | Rs. |
|---|---|---|---|
| 1981 | | | |
| March | 1 | Harish Kumar started business with Cash | 300 |
| ,, | 5 | Cash purchases | 100 |
| ,, | 8 | Cash paid to Sunil Kumar | 50 |
| ,, | 10 | Received from Harish Gupta | 300 |
| ,, | 15 | Paid for wages | 20 |
| ,, | 28 | Cash sales | 100 |
| ,, | 31 | Cash paid to Anil Kumar | 50 |

**Solution**

SIMPLE CASH BOOK

*Receipts* / *Payments*

| Date | Particulars | L.F. | Amount | Date | Particulars | L.F. | Amount |
|---|---|---|---|---|---|---|---|
| | | | Rs. | | | | Rs. |
| 1981 | | | | 1981 | | | |
| March 1 | To Capital A/c | | 300 | March 5 | By Purchases A/c | | 100 |
| ,, 10 | To Harish Gupta | | 300 | ,, 8 | By Sunil Kumar | | 50 |
| ,, 28 | To Sales A/c | | 100 | ,, 15 | By Wages A/c | | 20 |
| | | | | ,, 31 | By Anil Kumar | | 50 |
| | | | | ,, 31 | By Balance c/d | | 480 |
| | | | 700 | | | | 700 |
| April 1 | To Balance b/d | | 480 | | | | |

Note 1. When the businessman starts his business, he receives Cash. Thus Capital A/c is debited in the Cash Book.

2. It should be kept in mind that the total of Receipts side is greater than that of the Payments side. It is because a businessman cannot spend more than what he has. If the money is spent by borrowing from somewhere, it will first be recorded on the Receipts side and then on the Payments side. Thus the total of Credit side is always less than that of Debit side and the balance is always a Debit Balance.

3. 'c/d' means carried down and 'b/d' means brought down.

4. Balance left at the end of the month is shown by writing 'By Balance c/d' on the Credit side and this amount becomes Cash-in-hand in the next month and is shown as 'To Balance b/d'.

**Balancing of Cash Book**

After entering all the Cash transactions, the Cash Book is to be balanced. Balance in hand is that amount which should be

available with the businessman in the office. For finding out the balance, amount columns of Debit and Credit sides of Cash Book are added. Then the difference between the two sides is found out. The total of the Debit side of the Cash Book is always more than that of the Credit side. If the businessman has spent the whole amount, both the sides will be equal and there will be no balance.

The balance is shown as 'By Balance c/d' on the Credit side. Amount columns of the Debit and Credit sides are added up in one straight line and a double line is drawn under the two totals.

If in a Cash Book, there are less transactions on one side than the other side a straight line is drawn in the amount column. On the Debit side we write the next date and the balance is brought down by writing 'To Balance b/d'.

**Discount**

Discount is an allowance allowed by a trader to his clients either for making prompt payment or for bulk purchase. The former is known as Cash discount and latter as Trade discount. Trade discount is allowed by the manufacturers or wholesalers to their retailers or customers on the printed price lists.

Wholesalers allow cash discount as well as trade discount to the retailers. Cash discount is allowed if payment is made within a fixed period. Net amount, after deducting the trade discount, is entered in the books of account. For example, goods worth Rs. 500 was purchased and a trade discount of 10% was allowed. Entry for Rs. 450 will be passed.

**Difference between Cash Discount and Trade Discount**

| Cash Discount | Trade Discount |
|---|---|
| 1. Cash discount is allowed if the customer makes the payment in time. | 1. Trade discount is allowed by wholesalers to the retailers on the printed price list with the purpose of selling more goods. |
| 2. Cash discount is allowed only if the payment is made within a fixed period. | 2. Trade discount is allowed immediately when the goods are sold. |
| 3. It is recorded in the Cash Book. | 3. It is not recorded in the Cash Book, but in Purchases and Sales Book. |
| 4. It is not deducted from the invoice. | 4. It is deducted from the invoice. |

It is clear from the above that Trade discount is allowed to increase sales and Cash discount is allowed to encourage prompt payments. Trade discount is usually a normal precedure whereas cash discount calls for a watch by the trader and he would usually like to check up it together with his receipts and payments. That is, he would like to know constantly as to how much cash discount he has allowed and as to how much he has received during a certain period. It is with this reason in view that a double column cash book is prepared, with an additional column for cash discount on each side of the cash book.

*Receipts* DOUBLE COLUMN CASH BOOK *Payments*

| Date | Particulars | L.F. | Discount | Cash | Date | Particulars | L.F. | Discount | Cash |
|---|---|---|---|---|---|---|---|---|---|
| | | | Rs. | Rs. | | | | Rs. | Rs. |

Cash discount is allowed to persuade the businessman to make prompt payment. It is allowed at the time of making payment, so the entry for Cash Discount is made along with entry for payment. If Cash is debited in a transaction, discount is also debited and if Cash is credited discount is also credited. Thus one column each on Debit and Credit side of Cash Book is increased.

To take an example a merchant allows 2½% discount on cash payment. He sells goods to a customer Chakresh for Rs. 400. If the payment is made in Cash it will be shown as follows in the Cash Book :

*Dr.* CASH BOOK *Cr.*

| Date | Particulars | L.F. | Discount | Amount | Date | Particulars | L.F. | Dis-count | Amount |
|---|---|---|---|---|---|---|---|---|---|
| 1981<br>Mar. 10 | To Chakresh | | Rs.<br>10 | Rs.<br>390 | | | | Rs. | Rs. |

*Dr.* CASH BOOK *Cr.*

| Date | Particulars | L.F. | Discount | Amount | Dae | Particulars | L.F. | Discount | Amount |
|---|---|---|---|---|---|---|---|---|---|
| | | | Rs. | Rs. | 1981 Mar.15 | By Brijesh | | Rs. 4 | Rs. 196 |

Let us now have an Illustration for further clarification :—

**Illustration 5·2.**

Prepare a two column **Cash Book** from the following transactions of Shri Ram Kumar :—

| 1981 | | | Rs. |
|---|---|---|---|
| Jan. | 1 | Cash in hand | 2,000 |
| ,, | 5 | Cash purchases | 1,000 |
| ,, | 8 | Cash Sales | 3,000 |
| ,, | 10 | Cash received from Ramesh Gupta<br>and allowed him discount | 990<br>10 |
| ,, | 15 | Paid for wages | 20 |
| ,, | 25 | Cash paid to Bansi Lal<br>and he allowed us discount | 470<br>30 |
| ,, | 31 | Cash paid to Bhola Ram | 200 |

*Receipts* CASH BOOK OF SHRI RAM *Payments*

| Date | Particulars | L.F. | Discount | Cash | Dat | Particulars | L.F. | Discount | Cash |
|---|---|---|---|---|---|---|---|---|---|
| | | | Rs. | Rs. | | | | Rs. | Rs. |
| 1981 Jan. 1 | To Balance b/d | | | 2,000 | 1981 Jan. 5 | By purchases A/c | | | 1,000 |
| ,, 8 | To Sales A/c | | | 3,000 | ,, 15 | By Wages A/c | | | 20 |
| ,, 10 | To Ramesh Gupta | | 10 | 990 | ,, 25 | By Bansi Lal | | 30 | 470 |
| | | | | | ,, 31 | By Bhola Ram | | | 200 |
| | | | | | ,, 31 | By Balance c/d | | | 4,300 |
| | | | 10 | 5,990 | | | | 30 | 5,990 |
| Feb. 1 | To Balance b/d | | | 4,300 | | | | | |

**Note**—In a two-column Cash Book, the discount columns are not balanced. These are only totalled. The debit total of a Discount A/c shows the total discount allowed by the merchant and the credit total of a Discount A/c shows the total discount received by the merchant.

**Ledger Posting of Simple Cash Book**

There is the same method of preparing the Cash A/c and Cash Book. Both have the same type of columns. But in a two-column Cash Book the entry for discount is also done at the same place. It should be remembered that either Cash A/c or Cash Book is prepared. Both of these are not prepared. For maintaining a complete record according to double entry system, posting has to be done in all the accounts mentioned in the Cash Book. The method of posting from the Cash Book is that all the accounts mentioned there should be opened in the Ledger. We should write 'By Cash A/c' on the credit side of those accounts that appear on the debit side of the Cash Book and *vice versa*. In Discount A/c we should write 'To Sundries' in the debit side and 'By Sundries' in the credit side. As regards amount, total of the debit amount should be written on the debit side and total of the credit amount should be written on the credit side.

Let us now have an illustration of posting of the simple cash book drawn under Illustration No. 5-1 on page 77.

*Dr.* CAPITAL ACCOUNT *Cr.*

| Date | Particulars | L.F. | Amount | Date | Particulars | L.F. | Amount |
|---|---|---|---|---|---|---|---|
| | | | | 1981 March 1 | By Cash A/c | | Rs. 300 |

HARISH GUPTA

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | 1981 March 1 | By Cash A/c | | Rs. 300 |

SALES ACCOUNT

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | 1981 March 28 | By Cash A/c | | Rs. 100 |

Dr. **PURCHASES ACCOUNT** Cr.

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1981 March 5 | To Cash A/c | | Rs. 100 | | | | |

**SUNIL KUMAR**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1981 March 8 | To Cash A/c | | Rs. 50 | | | | |

**WAGES ACCOUNT**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1981 March 15 | To Cash A/c | | Rs. 20 | | | | |

**ANIL KUMAR**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1981 March 31 | To Cash A/c | | Rs. 50 | | | | |

**Note** :—Ledger posting of Illustration 5-1.

**Ledger Posting of Double Column Cash Book**

Dr. SALES ACCOUNT Cr.

| Date | Particulars | L.F. | Amount | Date | Particulars | L F. | Amount |
|---|---|---|---|---|---|---|---|
| | | | Rs. | 1981 Jan. 8 | By Cash A/c | | Rs. 3,000 |

PURCHASES ACCOUNT

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1981 Jan. 5 | To Cash A/c | | Rs. 1,000 | | | | |

### RAMESH GUPTA

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | 1981 | | | Rs. |
| | | | | Jan 10 | By Cash A/c | | 190 |
| | | | | Jan 10 | By Discount A/c | | 10 |

### WAGES ACCOUNT

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1981 | | | Rs. | | | | |
| Jan.15 | To Cash A/c | | 20 | | | | |

### BANSI LAL

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1981 | | | Rs. | | | | |
| Jan.25 | To Cash A/c | | 470 | | | | |
| Jan.25 | To Discount A/c | | 30 | | | | |

### BHOLA RAM

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1981 | | | Rs. | | | | |
| Jan.30 | To Cash A/c | | 200 | | | | |

### DISCOUNT ACCOUNT

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1981 | | | Rs. | 1981 | | | |
| Jan.31 | To Sundries | | 10 | Jan 31 | By Sundries | | 30 |

**Note :—Ledger posting of Illustration 5-2.**

**Standard Questions**

1. **What is a Cash Book ? Draw the form of a Cash Book. How is Cash book Balanced ?**
2. **Which side of the Cash Book should be greater and why ? Explain in detail.**
3. **Why is Journal sub-divided ?**

   *(All India Senior School Certificate Exam., 1978)*
4. **What is discount ? How do you close the discount column into a Cash Book ?**

5. Is Cash Book a subsidiary book or the principal book of accounts ? Give reasons.

**Practical**

**Simple Cash Book**

1. Enter the following transactions in the Simple Cash Book :—

| 1981 | | | Rs. |
|---|---|---|---|
| Jan. | 1 | Sunil Kumar started business with Cash | 840·20 |
| ,, | 5 | Cash received from Ram Lal | 350·50 |
| ,, | 10 | Cash paid to Ram Lal | 250·40 |
| ,, | 11 | Cash Sales | 2,010·20 |
| ,, | 12 | Furniture purchased | 300·40 |
| ,, | 16 | Wages paid | 40·20 |
| ,, | 20 | Goods purchased for Cash | 550·30 |
| ,, | 21 | Paid for Postage | 3·50 |
| ,, | 25 | Cash Sales | 300·20 |
| ,, | 31 | Cash paid to Bhola Ram | 1,000·50 |

Ans. Cash in hand Rs. 1,355·80.

2. Enter the following transactions in the Cash Book :—

| 1981 | | | Rs. |
|---|---|---|---|
| July | 1 | Cash in hand | 1,000 |
| ,, | 4 | Goods purchased for cash | 200 |
| ,, | 6 | Cash sales | 100 |
| ,, | 8 | Wages paid | 25 |
| ,, | 10 | Cash paid to Satya Prakash | 100 |
| ,, | 15 | Cash received from Shiv Kumar | 200 |
| ,, | 18 | Cash purchases | 500 |
| ,, | 28 | Cash paid to Shyam Lal | 100 |
| ,, | 29 | Cash paid to Ram Kumar | 200 |
| ,, | 30 | Cash received from Jai Dayal | 300 |
| ,, | 31 | Rent paid | 50 |
| ,, | 31 | Charity paid | 25 |
| ,, | 31 | Salaries paid | 50 |

Ans. Cash in hand Rs. 350·00.

3. On March 1,1981 Harish Kumar started business with a Capital of Rs. 10,000. His transactions during the month are as follows :—

| 1981 | | | Rs. |
|---|---|---|---|
| March | 3 | Cash Received from Prem Chandra | 200 |
| ,, | 5 | Goods purchased for cash | 5,000 |
| ,, | 7 | Cash paid to Hem Chandra | 600 |
| ,, | 10 | Deposited into Bank | 2,000 |
| ,, | 15 | Goods sold for Cash | 4,000 |
| ,, | 17 | Furniture purchased for Cash | 300 |
| ,, | 20 | Commission received | 55 |
| ,, | 24 | Interest paid to Raj Kumar | 25 |

| | | | Rs. |
|---|---|---|---|
| March | 26 | Paid for salaries | 700 |
| ,, | 29 | Cash sales | 1,200 |
| ,, | 31 | Cash Purchased | 1,000 |

**Ans.** Cash in hand Rs. 5,830.

4. Enter the following transactions in the Simple Cash Book :—

| 1981 | | | Rs. |
|---|---|---|---|
| April | 1 | Cash in hand | 840 |
| ,, | 4 | Cash received from Ram Mohan | 250 |
| ,, | 8 | Cash paid to Krishan Lal | 350 |
| ,, | 11 | Cash Sales | 2,010 |
| ,, | 15 | Bicycle purchased and Cash paid | 300 |
| ,, | 18 | Wages paid | 40 |
| ,, | 20 | Goods purchased for Cash | 500 |
| ,, | 22 | Cash Sales | 300 |
| ,, | 23 | Deposited into Bank | 1,000 |

**Ans.** Cash in hand Rs. 1,210.

5. Enter the following transactions in the Simple Cash Book :—

| 1981 | | | Rs. |
|---|---|---|---|
| May | 1 | Cash in hand | 5,000 |
| ,, | 3 | Cash Sales | 800 |
| ,, | 5 | Goods purchased from Hira Lal for Cash | 760 |
| ,, | 8 | Goods sold for Cash to Radhey Shyam | 500 |
| ,, | 10 | Cash paid to Ram Mohan | 700 |
| ,, | 15 | Cash paid to Radhey Shyam | 200 |
| ,, | 18 | Rent paid | 80 |
| ,, | 21 | Paid for Salaries | 130 |
| ,, | 24 | Paid for Petty Expenses | 4 |
| ,, | 25 | Withdrawn by the trader for his personal use | 100 |
| ,, | 25 | Goods purchased | 1,300 |
| ,, | 28 | Telegram sent to Bombay | 2 |
| ,, | 29 | Paid to Electric Bill | 37 |

**Ans.** Cash in hand Rs. 2,987.

**Cash Book with Cash and Discount Columns.**

6. Enter the following transactions in the two-column Cash Book :—

| 1981 | | | Rs. |
|---|---|---|---|
| April | 1 | Cash in hand | 1,350·50 |
| ,, | 5 | Cash paid to Bhola Ram | 495.00 |
| | | and he allowed us discount | 5·00 |
| ,, | 10 | Cash Sales | 120·25 |
| ,, | 15 | Cash paid to Mathura Nath | 225·25 |
| | | and he allowed us discount | 5·00 |
| ,, | 16 | Cash purchases | 240·00 |
| ,, | 20 | Paid for Wages | 50·15 |

| | | | |
|---|---|---|---|
| ,, | 21 | Cash withdrawn for private Expenses | 100·00 |
| ,, | 25 | Cash paid to P. N. Soni | 490·00 |
| | | and he allowed us discount | 10·00 |
| ,, | 28 | Goods sold for Cash | 480·00 |
| ,, | 29 | Cash paid by Ram Lal | 480·00 |
| | | and we allowed him discount | 20·00 |
| ,, | 30 | Paid for Salaries | 40·25 |

**Ans.** Cash in hand Rs. 790 10. Debit total of Discount Column 20·00. Credit total of Discount Column 20·00.

7. Enter the following transactions in the two-column Cash Book of Shri Ram Kumar Gupta :—

| 1981 | | | Rs. |
|---|---|---|---|
| August | 1 | Cash in hand | 1,375 |
| ,, | 4 | Cash paid to Harish Gupta | 625 |
| | | Discount received | 25 |
| ,, | 6 | Cash purchases | 150 |
| ,, | 8 | Cash received from Sudhir Kumar | 575 |
| | | Discount allowed | 15 |
| ,, | 10 | Goods sold for Cash | 600 |
| ,, | 16 | Paid to Anil Kumar | 200 |
| ,, | 18 | Received from Prem Chandra | 1,189 |
| | | Discount allowed | 11 |
| ,, | 22 | Paid for Wages | 50 |
| ,, | 26 | Purchased Machinery for Cash | 562·50 |
| ,, | 30 | Paid for Rent | 52 |
| ,, | 30 | Received from Sudhir Kumar | 1,500 |
| ,, | 31 | Paid for Cartage | 15 |

Ans. Cash in hand Rs. 3,584·50. Debit Total of Discount column Rs. 26 00. Credit Total of Discount column Rs. 25·00.

# 6

# Special Purpose Subsidiary Books

## (Purchases, Sales, Purchases Returns and Sales Returns Books)

Now-a-days credit transactions are considered more convenient than cash transactions. Small traders purchase goods from wholesalers on credit basis and make the payment on some future date. These small traders in turn sell goods to their permanent and known customers on credit basis. Credit purchases are recorded in Puchases Book and credit sales are recorded in Sales Book. When goods sold on credit are returned they are recorded in Sales Returns Book. When we return the goods purchased on credit, it is recorded in Purchases Returns Book.

When a trader wants to purchase goods for his business he makes inquiries about the quality and price of the goods from sellers. After making a careful study of the price lists of various manufacturers he gives a suitable order. The wholesalers give some trade discount to the retailers.

The businessman sends an invoice to the buyer. This invoice contains the description of the goods sold and details of the price. The buyer can compare it with his order. Quality of the goods, rate, amount, trade discount, etc., are given in invoice. All the expenses relating to the goods are also added to the cost of the goods. Following informations are provided in an invoice :—

(1) Invoice No. (2) Order No. (3) Name and address of the seller. (4) Name and address of the buyer. (5) Place. (6) Business terms. (7) Quantity of the goods. (8) Trade discount. (9) Expenses. (10) Advances received. (11) Price of the individual goods and Total price. (12) Signatures of the seller. (13) E. &. O. E.

The items of information at serial nos. 1 to 12 are easily understandable and need no explanation. An invoice no. is very useful for locating the authenticity of the sale transaction. So is the case with order no. which is used to check up whether the goods sent were in accordance with the order received. The other informations regarding the quality of the goods, its quantity, the price, the trade discount allowed, etc., are also recorded in the invoice. At the end of the left hand bottom the letters 'E. & O. E.' are also printed in the invoice. This may better be understood thus :—

**E. & O. E.** This is the abbreviation of 'Errors and Omissions Excepted. Its means that if per chance an error has creeped in or an omission made, it will be corrected later. In other words it means that the amount due from the buyer which is recoverable is subject to adjustments (if need be) on account of clerical mistakes committed while preparing the invoice.

**Example of Invoice**

Prepare an invoice from the following particulars :—

**Sellers** :—Chaudhary Water-proof Works,
171, Harison Road, Calcutta.

**Buyers** :—General Cloth Stores,
221, Seva-ka-Bazar, Agra.

Goods sent :—1 doz. Swastika Brand Rain Coats @ Rs. 228 each.
3 doz. Umbrellas @ Rs. 10.50 each.
4 doz. Holdalls large size @ Rs. 180 per doz.
2 doz. Felt Hats assorted colours and sizes
@ Rs. 144 per doz.

**Expenses** :—Packing Rs. 8
Cartage Rs. 1·50
Railway Freight Rs. 14·50

**Terms** :—Trade Discount $7\frac{1}{2}\%$
Cash discount $2\frac{1}{2}\%$ within a month.

**Solution**

**Invoice**

Chaudhary Water-proof Works

Tel. Address : 'Chaudhary' — 171, Harison Road,
Telephone : 22115 — Calcutta
May 15, 1980

| |
|---|
| Invoice No. 420<br>Order No. 840 A.B. |

Messrs. General Cloth Stores,
221, Seva-ka-Bazar, Agra.

Bought of Chaudhary Water-proof Works

Terms :—$2\frac{1}{2}\%$ within a month.

| Particulars | Rate | Details | Amount |
|---|---|---|---|
| | | Rs. | Rs. |
| 1 doz. Swastika Brand Rain Coats | Rs. 228 each | 2,736 | |
| 3 doz. Umbrellas | Rs. 10·50 each | 378 | |
| 4 doz. Holdalls large size | Rs. 180 per doz. | 720 | |
| 2 doz. Felt Hats assorted colours and size | Rs. 144 per doz. | 288 | |
| | | 4,122 | |
| *Less* : 7½% discount | | 309.15 | 3,812.85 |
| *Add* : | | | |
| Packing | | 8 | |
| Cartage | | 1·50 | |
| Railway, Freight | | 14·50 | 24 |
| | | | 3,836·85 |

E. & O. E.
By Passenger Train
Freight paid

For Chaudhary Water-proof Works
Sudhir Kumar
Manager.

**Purchases Book or Purchases Journal**

Now-a-days along with cash transactions the number of credit transactions is increasing. Cash transactions are recorded in the cash book. A separate book called the Purchases Book is kept for recording credit purchases. Credit purchases that are to be consumed in the business are not recorded in the Purchases Book.

Those goods that are purchased for the purpose of earning revenue are recorded in the Purchases Books also called Invoice Book or Purchases Journal or Purchase Day Book.

It must be remembered that in Purchases Book we record *only credit purchases of goods*. This means firstly that if any thing other than goods are purchased on credit, it will not be recorded in this book. Such transactions are recorded in Journal. Secondly cash purchases also will not be recorded in it. As already discussed in the previous chapter, they will be recorded in Cash Book.

**Form of Purchases Book**

A Purchases Book contains the following five columns :—

(1) **Date**—Here the date of the transaction is written.

(2) **Particulars**—In this column the name of the person, firm or company is written from whom the goods are purchased.

(3) **Invoice No.**—Here the invoice No. of the goods is written.

(4) **L.F.**—In this column the page No. of the ledger is written.

(5) **Amount**—In this column the amount of the transaction is recorded.

SPECIMEN OF PURCHASES BOOK

| Date | Particulars | Invoice No. | L.F. | Deta ls | Amount |
|---|---|---|---|---|---|
| | | | | Rs. | Rs. |
| | | | | | |

**Ledger Posting of Purchases Book**

Purchases Book is a record of all such transactions wherein we buy on credit. In other words it lists the names of all those who are 'giver' of goods The other part of the transaction is that the goods are received *viz*.. goods 'come in'. By applying the rules of Accounting discussed earlier, we know, that the 'giver' is to be credited and what comes in is to be debited. Accordingly the accounts of all those persons who have sold to us or from whom we have bought goods are to be credited with the amounts for which they have supplied the goods. And the 'Goods' which have been received will have to be debited.

Now, for the sake of convenience and in order to have complete 'information' regarding 'purchases' and 'sales' separately, the 'Goods' account is usually split up into two separate accounts, Purchases A/c and Sales A/c. Hence in respect of Purchases Book we would debit the Purchases A/c with the total of the Purchases Book on a specific date and credit the various personal A/cs from whom we have bought goods. This is also the reason why we write 'Purchases A/c Dr.' in the particular column against the total of Purchases Book.

**Illustration 6-1.**

Make out the Purchases Book of M/s. Rajendra Kumar & Co. from the following transactions :

1981

Jan. 1 Purchased from Ramesh Kumar Gupta & Co. on credit.
50 bags Wheat @ Rs. 5·25 per bag
30 ,, Gram @ Rs. 5·00 per bag
10 ,, Sugar @ Rs. 80·00 per bag

,, 15 Bought from Naresh Bros. on credit :
20 bags Sugar @ Rs. 70·00 per bag
15 ,, Gram @ Rs. 7·00 per bag

,, 25 Surendra Sugar Works sold to us :
200 bags Sugar @ Rs. 50·00 per bag

**Solution**

PURCHASES BOOK OF RAJENDRA KUMAR & CO.

| Date | Particulars | Invoice No. | L. F. | Details | Amount |
|---|---|---|---|---|---|
| | | | | Rs. | Rs. |
| 1981 Jan. 1 | **Ramesh Kumar Gupta & Co.** | | | | |
| | 50 bags Wheat @Rs. 5·25 per bag | | | 262·50 | |
| | 30 ,, Gram @ Rs. 5 per bag | | | 150 | |
| | 10 ,, Sugar @ Rs. 80 per bag | | | 800 | 1,212·50 |
| ,, 5 | **Naresh Bros.** | | | | |
| | 20 bags Sugar @ Rs. 70 per b g | | | 1,400 | |
| | 15 ,, Gram @ Rs. 7 per bag | | | 105 | 1,505 |
| ,, 25 | **Surendra Sugar Works** | | | | |
| | 200 bags Sugar @ Rs. 50 per bag | | | 10,000 | 10,000 |
| | Purchases A/c Dr. | | | | 12,717·50 |

**Note. 1.** On Jan. 25 the world 'sold' has been used but still the transaction has been recorded in Purchases Book. The reason is quite simple. It sometimes confuses the student. It means that the M/s. Surendra Sugar Works have sold to us, *i.e.*, we have Purchased from them.

**2.** Against the total in the amounts column, we have written 'Purchases A/c Dr.' under the particular column. This is done to clearly indicate as to how the Total of Purchases Book has to be recorded in Ledger.

**Ledger Posting**

*Dr.* RAMESH KUMAR GUPTA & Co. *Cr*

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | 1981 Jan. 1 | By Purchases A/c | | Rs. 1,212·50 |

NARESH BROS.

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | 1981 Jan. 15 | By Purchases A/c | | Rs. 1,505 |

SURENDRA SUGAR WORKS

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | 1981<br>Jan. 25 | By Purchases A/c | | Rs.<br>10,000 |

PURCHASES ACCOUNT

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1981<br>Jan.31 | To Sundries | | Rs.<br>12,717·50 | | | | |

**Illustration. 6-2.**

Enter the following transactions of Shri Vijay Kumar business in the Purchases Book :

**1981**

April 1 Bought of Shree Mahavir Book Depot, Delhi on credit 100 copies of Com. Practice, Part I by C.L. Chaturvedi @ Rs. 4·00 each.
200 copies of Higher Secondary Book-keeping by C.L. Chaturvedi @ Rs. 17·50 each.
*Less* 10% Trade Discount

" 8 Bought of Mathura Pustak Bhandar, Mathura, on credit 100 copies of Statistics by C.L. Chaturvedi @ Re. 1.
*Less* 20% Trade Discount

" 20 Bought of Ravindra Kumar, Agra
50 copies of History of Indian Literature by Chaturvedi @ Rs. 2.
*Less* 10% Trade Discount

**Solution.**

PURCHASES BOOK

| Date | Particulars | Invoice No. | L.F. | Details | Total |
|---|---|---|---|---|---|
| 1981 | | | | Rs. | Rs. |
| Apl. 1 | **Shree Mahavir Book Depot, Delhi :** 100 copies of Com. Practice Part I by C.L. Chaturvedi @ Rs. 4 each | | | 400 | |
| | 200 copies of Higher Secondary Book-keeping by C.L. Chaturvedi @ Rs. 17·50 per copy. | | | 3,500 | |
| | | | | 3,900 | |
| | | | | 390 | |
| | *Less* 10% | | | | 3,510 |
| „ 8 | **Mathura Pustak Bhandar, Mathura ;** 100 copies of Statistics, by C.L. Chaturvedi @ Re. 1 | | | 100 | |
| | *Less* 20% | | | 20 | |
| | | | | | 80 |
| „ 20 | **Ravindra Kumar, Agra :** 50 copies of History of Indian Literature @ Rs. 2 | | | 100 | |
| | *Less* 10% | | | 10 | |
| | | | | | 90 |
| | Purchases A/c Dr. | | | | 3,680 |

**Columnar Purchases Book**

Sometimes a businessman desires to know the split up or analysis of all the purchases he makes for proper control over them or to find out whether he is incurring losses on any specific item in which he deals. For this purpose he maintains separate purchases A/cs for different items of purchases in a columnar Purchases Book. This type of purchases book is also sometimes called multi-column Purchases Book. The only difference is that the amount column is subdivided into different columns which enables him to know the separate purchases of every item at the end of the month.

**Illustration 6-3**

Enter the following transactions in the Columnar Purchases Book of Sudhir Kumar Chaturvedi :

1981

May 1 Purchased from Suresh Gupta, Bombay:
100 bags Wheat @ Rs. 120 per bag
50 bags Gram @ Rs. 100 per bag
200 bags Sugar @ Rs. 150 per bag

„ 5 Bought of Virendra Vig, Delhi :
100 bags Wheat @ Rs. 125 per bag
100 bags Gram @ Rs. 110 per bag

May 8 Surendra Gupta, Agra, sold to us :
100 bags Sugar @ Rs. 150 per bag
„ 9 Raj Kumar, Delhi, sold to us :
200 bags Wheat @ Rs. 120 per bag

**Solution**

COLUMNAR PURCHASES BOOK OF SUDHIR KUMAR CHATURVEDI

| Date | Particulars | Invoice No. | L.F. | Wheat | Gram | Sugar | Total |
|---|---|---|---|---|---|---|---|
| 1981 | | | | | | | |
| May 1 | Suresh Gupta, Bomby | | | 12,000 | 5,000 | 30,000 | 47,000 |
| „ 5 | Virendra Vig, Delhi | | | 12,500 | 11,000 | — | 23,500 |
| „ 8 | Surendra Gupta, Agra | | | — | — | 15,000 | 15,000 |
| „ 9 | Raj Kumar, Delhi | | | 24,000 | — | — | 24,000 |
| | | | | 48,500 | 16,000 | 45,000 | 1,09,500 |

**Sales Book or Sales Journal**

Like Purchases Book, which is a record of credit purchases, Sales Book is a book which records all Sales of goods on credit. Like purchases book it also records *only sale of goods on credit*. That is if goods are sold on cash it will not be recorded here but in cash book. Similarly if something else other than 'goods', for example old furniture is sold on credit, the transaction will also not be recorded in Sales Book but in Journal.

**Form of Sales Book**

The form of a sales book is like that of a purchases book. Six columns are prepared in this book—Date, Particulars, Invoice No., L.F., Details and in the last column Total is written. Thus the last column contains the total of all the transactions with a trader. It should be kept in mind that in the second column of the Purchases Book names of those persons are written from whom the businessman has bought goods on credit, but in the second column of the Sales Book names of those persons are written to whom the businessman has sold goods. If some discount has been allowed on the goods sold, it should be deducted from the from the amount of sales. In the Particulars column only names are written and there is no mention of the goods because it is clear that in sales A/c the names of these traders will be credited to whom the goods are sold.

**Illustration 6-4.**

Enter the following transactions in the Sales Book of Messrs. Raj Kumar & Bros., 5b, Prem Nagar, Subzi Mandi, Delhi-7 :—

| 1981 | | |
|---|---|---|
| May | 1 | Sold to Harish Gupta, Delhi :<br>50 bags Rice @ Rs. 150 per bag<br>10 bags Wheat @ Rs. 100 per bag |
| " | 8 | Sold to Rajendra Gupta, Kaithal :<br>80 bags Rice @ Rs. 100 per bag<br>20 bags Rice @ Rs. 120 per bag<br>Trade Discount allowed 10% |
| " | 15 | Sold to Ranvir Chaudhary, Delhi :<br>100 bags Wheat @ Rs. 120 per bag<br>Trade Discount allowed 10% |

**Solution**

SALES BOOK

| | | | | | |
|---|---|---|---|---|---|
| | | | | Rs. | Rs. |
| 1981<br>May 1 | Harish Gupta, Delhi :<br>50 bags Rice @ Rs. 150 per bag<br>10 bags Wheat @ Rs. 100 per bag | | | 7,500<br>1,000 | 8,500 |
| " 8 | Rajendra Gupta, Kaithal :<br>80 bags Sugar @ Rs. 100 per bag<br>20 bags Rice @ Rs. 120 per bag | | | 8,000<br>2,400 | |
| | *Less* 10% discount | | | 10,400<br>1,040 | 9,360 |
| " 15 | Ranvir Chaudhary, Delhi :<br>100 bags Wheat @ Rs. 120 per bag<br>*Less* 10 % discount | | | 12,000<br>1,200 | 10,800 |
| | Sales A/c Cr. | | | | 28,660 |

**Ledger Posting of Sales Book**

For preparing Ledger from the Sales Book we open all the Personal A/cs and write 'To Sales A/c' on the debit side. In the 'Sales A/c' we write 'By Sundries'. Thus 'Sales A/c' is also prepared along with other accounts.

Let us clarify it with the help of the following illustration : 10 x 1 100

**Ledger Posting of Sales Book**

*Dr.* HARISH GUPTA, DELHI *Cr.*

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1981<br>May 1 | To Sales A/c | | Rs.<br>8,500 | | | | |

*Dr.* RAJENDRA GUPTA, KAITHAL *Cr.*

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1981<br>May 8 | To Sales A/c | | Rs.<br>9,360 | | | | |

Dr. RANVIR CHAUDHARY, DELHI Cr.

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1981 May 15 | To Sales A/c | | Rs. 10,800 | | | | |

Dr. SALES ACCOUNT Cr.

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | 1981 May 31 | By Sundries | | Rs. 28,660 |

**Illustration 6·5.**

Prepare Purchases and Sales Book from the following particulars :—

1981

July 1 Purchased from Rajendra Gupta & Co. :
20 yds. Silk @ Rs. 4·25 per yd.
30 yds. Nylon @ Rs. 7·00 per yd.

,, 10 Ramesh Cloth Store bought from us :
30 yds. Silk @ Rs. 5·00 per yd.
15 yds. Velvet Rs. 6·10 per yd.

July 15 Prince & Co. sold goods to us :
400 pcs. Prints @ Rs. 20·00 per pc.
20 pcs. Prints @ Rs. 8·00 per pc.

,, 20 Sold to Usha Cloth Store :
20 Blankets @ Rs. 50·00 each.
10 Blankets @ Rs. 25·00 each.

,, 25 Purchased from Santosh Bros. :
20 pcs. Calico @ Rs. 6·50 per pc.
10 pcs. Calico @ Rs. 5·00 per pc.

,, 28 Sold to Narendra Cloth Co.
20 pcs. Calico @ Rs. 7·00 per pc.

,, 31 Sold to Black Bros.
10 Blankets @ Rs. 20·00 each.

**Solution**

PURCHASES BOOK

| Date | Particulars | Invoice No. | L.F. | Details | Total |
|---|---|---|---|---|---|
| 1981 | | | | Rs. | Rs. |
| July 1 | **Rajendra Gupta & Co :** | | | | |
| | 20 yds. Silk @ Rs. 4·25 per yd. | | | 85·00 | |
| | 30 yds Nylon @ Rs. 7·00 per yd. | | | 210·00 | 295·00 |
| ,, 15 | **Prince & Co. :** | | | | |
| | 400 pcs. Prints @ Rs. 20 per pc. | | | 8,000 00 | |
| | 20 pcs. Prints @ Rs. 8 per pc. | | | 160·00 | 8,160·00 |
| ,, 25 | **Santosh Gupta :** | | | | |
| | 20 pcs. Calico @ Rs. 6·50 per pc. | | | 130·00 | |
| | 10 pcs. Calico @ Rs. 5 per pc. | | | 50·00 | 180·00 |
| | Purchases A/c Dr. | | | | 8,635·00 |

### SALES BOOK

| Date | Particulars | Invoice No. | L.F. | Details | Total |
|---|---|---|---|---|---|
| | | | | Rs. | Rs. |
| 1981 July 10 | **Ramesh Cloth Store :**<br>30 yds. Silk @ Rs. 5 per yd.<br>15 yds. Velvet @ Rs. 6·10 per yd. | | | 150·00<br>91·50 | 241·50 |
| ,, 20 | **Usha Cloth Store :**<br>20 blankets @ Rs. 50 each<br>10 blankets @ Rs. 25 each | | | 1,000·00<br>250·00 | 1,250·00 |
| ,, 28 | **Narendra Cloth Co. :**<br>20 pcs. Calico @ Rs. 7·00 per pc. | | | 140·00 | 140·00 |
| ,, 31 | **Black Bros. :**<br>10 blankets @ Rs. 20 each | | | 200·00 | 200·00 |
| | Sales A/c Cr. | | | | 1,831·50 |

So far we have discussed and illustrated the Purchases Book and the Sales Book and their posting in Ledger account. It would be better to mention a few points in this regard to enable the students to have a complete grasp on the various problems.

1. Purchases and Sales Books *record only 'Credit trade Transactions, viz.*—credit trade purchases and credit trade sales. Credit trade purchases means purchases on credit of merchandise bought for resale, or raw material bought for manufacture and sale. Similarly credit trade sale means selling on credit the goods we deal in or we manufacture and sell. In other words, these books do not record credit purchase or credit sale of non-trading items like; furniture, machinery, building, etc., which are bought not for resale but for retaining in the business. Such transactions will be recorded in the Journal.

2. It may also be remembered that it is not the nature of the items which may be defined as trade items and non-trade items, but the nature of the business. For example, Furniture will normally be a non-trade item and its credit purchase will be recorded in Journal. But for a dealer in Furniture, it is to be considered trade item or goods and entries will be made in Purchases and Sales Book.

3. Cash purchases and cash sales will never be recorded in these books.

**Purchases Returns Book or Returns Outward Book**

Sometimes when the goods have been bought, but they do not meet the satisfaction of the businessman, the businessman returns them to the seller. This is called Purchases Returns or Returns Outward. There may be many reasons of returning the goods. For example the quality of the goods supplied may be inferior, or they

may not have been delivered in time, or they may be partially defective or they might have been damaged in transit. Because of any of these reasons, either the goods are returned or some allowance is allowed by the supplier. Again, such goods might have been bought either on cash or on credit. If it were a cash purchase, the goods would be returned and cash received. Since cash is 'Coming in' it would be recorded on the debit side of the cash book 'To Returns Inward' and Ledger posting done accordingly. But most of the times such returns are for credit purchases which have been recorded in Purchases Book. The businessman wants to know as to how much goods he has returned and thus he maintains a separate book called Purchases Returns Book or Returns Outward Book, wherein he records all such transactions.

When the goods are so returned, the businessman also sends a Debit Note to the supplier, wherein he intimates to him that his account has been debited on account of return of goods purchased by him earlier. The seller on receipt of the goods and the debit note sends a Credit Note intimating that he has received the goods and the account of the customer has been credited with the value of the goods returned.

**Illustration 6-6.**

Prepare Purchases Returns Book of Shri Rajendra Kumar from the following transactions :—

| | | | |
|---|---|---|---|
| 1981 | | | Rs. |
| Jan. | 1 | Returned to Ram Prakash | 500.00 |
| ,, | 5 | Returned to Bhola Ram | 300.50 |
| ,, | 15 | Returned to Prem Chandra | 200.00 |
| ,, | 25 | Returned to Yogendra Behari | 100.00 |

**Solution.**

PURCHASES RETURNS BOOK

| Date | Particulars | L.F. | Details | Total |
|---|---|---|---|---|
| 1981 | | | Rs. | Rs. |
| Jan. 1 | Ram Prakash | | | 500 |
| ,, 5 | Bhola Ram | | | 300·50 |
| ,, 15 | Prem Chandra | | | 200 |
| ,, 25 | Yogendra Behari | | | 100 |
| | Purchases Returns A/c Cr. | | | 1,100·50 |

**Ledger posting of Purchases Returns Book**

In this book we enter the transactions of returning goods. It means that those to whom goods are being returned are the 'receiver' and goods (Purchases Returns) are 'going out'. Hence we debit the personal accounts of all those to whom goods have been returned and credit the Purchases Returns A/c.

**Ledger Posting of Purchases Returns Book.**

Dr. RAM PRAKASH Cr.

| Date | Particulars | L.F. | Amount | Date | Particulars | L.F. | Amount |
|---|---|---|---|---|---|---|---|
| 1981 Jan. 1 | To Purchases Returns A/c | | Rs. 500 | | | | |

Dr. BHOLA RAM Cr.

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1981 Jan. 5 | To Purchases Returns A/c | | Rs. 300·50 | | | | |

Dr. PREM CHANDRA Cr.

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1981 Jan. 15 | To Purchases Returns A/c | | Rs. 200·00 | | | | |

Dr. YOGENDRA BEHARI Cr.

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1981 Jan. 15 | To Purchases Returns A/c | | Rs. 100 | | | | |

Dr. PURCHASES RETURNS ACCOUNT Cr.

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | 1981<br>Jan.31 | By Sundries | | Rs.<br>1,100·50 |

**Sales Returns Book or Returns Inward Book**

Just as a businessman, returns, his goods after purchase on account of certain reasons, in the same way his customers may also return to him. When goods are returned by custmers, they are entered in a book called Sales Returns Book or Returns Inward Book. The form is just like that of the Purchases Returns Book except the Debit Note column which becomes Credit Note column in Sales Returns Book This is because of the fact that the businessman will now have to issue credit note for the goods so returned by customers. This will be clarified with the help of the following example :

**Illustration 6-7.**

Enter the following transactions in the Sales Returns Book of Sharan & Sons.

| | | |
|---|---|---|
| 1981 | | |
| Aug. | 1 | Returned by Harish Gupta & Co.<br>100 bags Coffee @ Rs. 40 per bag. |
| ,, | 16 | Returned by Narendra & Co.<br>200 chests Tea @ Rs. 50 per chest. |
| ,, | 31 | Returned by Bhagwan Bros.<br>50 tins Ghee @ Rs. 100 per tin. |

**Solution**

SALES RETURNS BOOK OF SHARAN & SONS.

| Date | Particulars | L.F. | Details | Total |
|---|---|---|---|---|
| 1981<br>Aug. 1 | **Harish Gupta & Co. :**<br>100 bags Coffee @ Rs. 40 per bag | | Rs.<br>4,000 | 4,000 |
| ,, 16 | **Narendra & Co. :**<br>200 chests Tea @ Rs. 50 per chest | | 10,000 | 10,000 |
| ,, 31 | **Bhagwan Bros. :**<br>50 tins Ghee @ Rs. 100 per tin | | 5,000 | 5,000 |
| | Sales Returns A/c Dr. | | | 19,000 |

**Ledger Posting of Sales Returns Book**

What is to be remembered is that the 'goods' (Sales Returns) are received and the customers are the 'givers'. As such we shall credit the accounts of the 'givers' *viz.*, the customers and debit the 'Sales Returns A/c' for the returns are 'coming in'.

The ledger posting of the above Sales Returns Book will be as under :

**Ledger Posting of Sales Returns Book**

Dr. HARISH GUPTA & CO. Cr.

| Date | Particulars | L.F. | Amount | Date | Particulars | L.F. | Amount |
|---|---|---|---|---|---|---|---|
| | | | | 1981 Aug. 1 | By Sales Returns A/c | | Rs. 4,000 |

Dr. NARENDRA & CO. Cr.

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | 1931 Aug. 16 | By Sales Returns A/c | | Rs. 10,000 |

Dr. BHAGWAN BROS. Cr.

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | 1981 Aug. 31 | By Sales Returns A/c | | Rs. 5,000 |

Dr. SALES RETURNS ACCOUNT Cr.

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1981 Aug. 31 | To Sundries | | Rs. 19,000 | | | | |

**Columnar Returns Books**

As has been discussed earlier usually a businessman desires to know the split up or analysis of his purchases, sales or returns. Accordingly all these books can be converted into columnar books. The columnar Purchase Book has already been discussed. The pattern of the other books will be the same. Let us see the following illustration ·

**Illustration 6·8.**

Enter the following transactions in the Columnar Purchases Book, Sales Book, Purchases Returns Book and Sales Returns Book of Shri Ramesh Kumar.

| | | |
|---|---|---|
| 1981 | | |
| Jan. | 1 | Purchased from Yog Raj :<br>100 bags Rice @ Rs. 80 per bag<br>200 bags Sugar @ Rs. 100 per bag |
| „ | 2 | Purchased from Vinod Chopra :<br>150 bags Wheat @ Rs. 90 per bag<br>80 bags Sugar @ Rs. 90 per bag |
| „ | 4 | Naresh Kumar Purchased from us :<br>20 bags Rice @ Rs. 110 per bag<br>50 bags Wheat @ Rs. 100 per bag |
| „ | 5 | Sold to Vijay Kumar :<br>120 bags Rice @ Rs. 100 per bag<br>30 tins Ghee @ Rs. 200 per tin |
| „ | 6 | Raj Kumar Sold to us :<br>10 bags Rice @ Rs. 100 per bag<br>20 tins Ghee @ Rs. 190 per tin |
| „ | 15 | Naresh Kumar returned to us :<br>2 bags Rice<br>5 bags Wheat |
| „ | 25 | Returned to Vinod Chopra :<br>5 bags Wheat |

**Solution**

COLUMNAR PURCHASES BOOK

| Date | Particulars | L.F. | Wheat | Rice | Sugar | Ghee | Total |
|---|---|---|---|---|---|---|---|
| 1981 | | | | | | | |
| Jan. 1 | Yog Raj | | — | 8,000 | 20,000 | — | 28,000 |
| „ 2 | Vinod Chopra | | 13,500 | — | 7,200 | — | 20,700 |
| „ 6 | Raj Kumar | | — | 1,000 | — | 3,800 | 4,800 |
| | Purchases A/c Dr. | | 13,500 | 9,000 | 27,200 | 3,800 | 53,500 |

COLUMNAR SALES BOOK

| ate | Particulars | L.F. | Wheat | Rice | Sugar | Ghee | Total |
|---|---|---|---|---|---|---|---|
| 1981 | | | | | | | |
| Jan. 4 | Naresh Kumar | | 5,000 | 2,200 | — | — | 72,00 |
| „ 5 | Vijay Kumar | | — | 12,000 | - | 6,000 | 18,000 |
| | Sales A/c Cr. | | 5,000 | 14,200 | — | 6,000 | 25,200 |

COLUMNAR PURCHASES RETURNS BOOK

| Date | Particulars | L.F. | Wheat | Rice | Sugar | Ghee | Total |
|---|---|---|---|---|---|---|---|
| 1981 Jan. 25 | Vinod Chopra | | 450 | — | — | — | 450 |
| | Purchases Returns A/c Cr. | | 450 | — | | — | 450 |

COLUMNAR SALES RETURNS BOOK

| Date | Particulars | L.F. | Wheat | Rice | Sugar | Ghee | Total |
|---|---|---|---|---|---|---|---|
| 1981 Jan. 15 | Naresh Kumar | | 500 | 220 | — | — | 720 |
| | Sales Returns A/c Dr. | | 590 | 220 | — | — | 720 |

**Journal Proper**

In the previous pages we have discussed various subsidiary books. There are still many transactions that cannot be entered in any of the above mentioned books. Such transactions that cannot be entered, elsewhere, are entered in Journal Proper. It is a very important book for a businessman. Following transactions are entered in Journal Proper :

1. **Miscellaneous Entries.** Those transactions that cannot be entered anywhere else are entered in this book, for example, bought furniture on credit, sold old furniture or old machine, etc.

2. **Opening Entries.** It is necessary for a businessman that assets and liabilities of the last year be carried forward to the next

year. For this purpose a joint entry has to be passed. This can be done only through journal proper.

3. **Rectification of Errors.** Sometimes there are errors in accounts books. Rectifying entries are a 'must' to correct them. This can be done through journal proper.

4. **Adjusting Entries.** Some adjustments are necessary while preparing final accounts. They are as follows :

(*a*) **Interest on Capital.** To arrive at net profit it is necessary to take interest on capital into consideration. Sometimes the businessman uses his own capital and sometimes he uses borrowed capital. In both the cases interest has to be calculated. This can be done through journal proper.

(*b*) **Depreciation.** There is always a depreciation in the value of fixed aseets. This might be due to wear and tear or obsolescence.

(*c*) **Outstanding Expenses.** There are certain expenses of the business which should have been paid during the current year but could not have been paid due to some reason or the other. They are called outstanding expenses. For example, the business man has paid only 7 months' rent instead of 12 months. It means 5 months' rent is outstanding.

(*d*) **Prepaid Expenses.** Similarly there can be certain expenses that have been paid in advance. These are called prepaid expenses.

(*e*) **Bad Debts.** Amounts not recovered are called bad debts.

5. **Entries relating to Dishonour of Bills.** Such entries can also be passed through journal proper only.

6. **Closing Entries.** At the close of the year some closing entries are also required. This is also possible through journal proper.

All these entries will be discussed at the appropriate place.

Let us have an example to illustrate the point :

**Illustration 6-9.**

Enter the following transactions in the 'Journal Proper' of Shri Surendra Kumar :

| 1981 | | | Rs. |
|---|---|---|---|
| Jan. | 5 | Charged depreciation on Furniture | 500 |
| ,, | 10 | Charged interest on Capital | 200 |
| ,, | 21 | Old Furniture purchased from S. Lal on credit | 100 |
| ,, | 25 | Ram Lal purchased our old machinery | 200 |
| ,, | 26 | Cash received from Shyam Lal wrongly credited to Ram Lal's account | 200 |
| ,, | 27 | Rent due to Landlord | 50 |
| ,, | 29 | Salaries due to clerks | 100 |

**Solution**

JOURNAL PROPER OF SHRI SURENDRA KUMAR

| Date | Particulars | | L.F. | Dr. Amount | Cr. Amount |
|---|---|---|---|---|---|
| | | | | Rs. | Rs. |
| 1981 Jan. 5 | Depreciation A/c<br>To Furniture A/c<br>(For depreciation charged on Furniture) | Dr. | | 500 | 500 |
| " 10 | Interest A/c<br>To Capital A/c<br>(For interest charged on capital) | Dr. | | 200 | 200 |
| " 21 | Furniture A/c<br>To S. Lal<br>(For old furniture purchased from him) | Dr. | | 100 | 100 |
| " 25 | Ram Lal<br>To Old Machinery A/c<br>(For old machinery sold to Ram Lal) | Dr. | | 200 | 200 |
| " 26 | Ram Lal<br>To Shyam Lal<br>(For cash received from Shyam Lal wrongly credited to Ram Lal's A/c, now corrected) | Dr. | | 200 | 200 |
| " 27 | Rent A/c<br>To Outstanding Rent A/c<br>(For Rent due to landlord) | Dr. | | 50 | 50 |
| " 29 | Salaries A/c<br>To Outstanding Salaries A/c<br>(For salaries due) | Dr. | | 100 | 100 |

**Illustration 6-10**

The following were the balances of accounts appearing in the books of Sunil Kumar & Co. on 31st December, 1980.

**Debit Balances.** Debtors Rs. 10,000 ; Investments Rs. 2,000 ; Stock Rs. 10,000 ; Cash in hand Rs. 1,200 ; Cash at Bank Rs. 4,800 ; Machinery Rs. 30,000 ; Furniture Rs. 20,000.

**Credit Balances.** Creditors Rs. 30,000 ; Loans Rs. 8,000 Capital Rs. 40,000.

Bring forward these balances in the next year's accounts books by an Opening Journal Entry.

## JOURNAL PROPER OF SUNIL KUMAR & CO.

| Date | Particulars | | L.F. | Dr. Amount | Cr. Amount |
|---|---|---|---|---|---|
| 1981 | | | | Rs. | Rs. |
| Jan. 1 | Debtors A/c | Dr. | | 10,000 | |
| | Investment A/c | ,, | | 2,000 | |
| | Stock A/c | ,, | | 10,000 | |
| | Cash in hand A/c | ,, | | 1,200 | |
| | Cash at Bank A/c | ,, | | 4,800 | |
| | Machinery A/c | ,, | | 30,000 | |
| | Furniture A/c | ,, | | 20,000 | |
| | To Creditors A/c | | | | 30,000 |
| | To Loan A/c | | | | 8,000 |
| | To Capital A/c | | | | 40,000 |
| | (For balances of previous years brought forward) | | | | |
| | | | | 78,000 | 78,000 |

**Illustration 6-11.**

Record the following transactions in the Sales Book, Purchases Book, Sales Returns Book, Purchases Returns Book and Journal Proper of Shri Pramod Kumar :—

1981

Jan. 1 *Assets.* Cash in hand Rs. 2,000 ; Cash at Bank Rs. 3,000 ; Stock Rs. 1,000 ; Virendra Mishra Rs. 2,000 ; Sagar Nizami Rs. 1,000 ; Furniture Rs. 500.

*Liabilities.* Narendra Kumar Rs. 1,000; Ram Narain Rs. 2,000; Gokal Das Rs. 1 000 ; Jagdish Chaturvedi Rs. 500; Capital Rs 5,000.

| | | Rs. |
|---|---|---|
| ,, 10 | Purchased Furniture from Ghasi Ram | 200 |
| ,, 11 | Sunil purchased an old machinery from u | 300 |
| ,, 13 | Purchased from Laxmi Das :<br>20 bags Sugar @ Rs. 40 per bag<br>10 bags Rice @ Rs. 30 per bag | |
| ,, 14 | Hari Das purchased from us<br>10 tins Ghee @ Rs. 100 per tin<br>20 bags Sugar @ Rs. 50 per bag | |
| ,, 15 | Hari Das returned goods to us :<br>2 tins Ghee @ Rs. 100 per tin<br>2 bags Sugar @ Rs. 50 per bag | |
| ,, 19 | Returned goods to Laxmi Das | 100 |
| ,, 20 | Laxmi Das gave us special allowance for certain defects in goods purchased from him | 30 |
| ,, 23 | Two old tables sold to Rajendra Kumar | 10 |

| | | |
|---|---|---|
| Jan. 26 | Sagar Nizami declared bankrupt, a First & Final dividend of 25 Paise in a rupee out of debt Rs. 1,000 received from him | 25 |
| ,, 31 | Interest due to Narendra Kumar | |
| ,, 31 | Taken by the proprietor for his personal use<br>1 bag of Sugar @ Rs. 30 per bag<br>2 bags of Rice @ Rs. 20 per bag | |

**Solution**

PURCHASES BOOK

| Date | Particulars | L.F. | Details | Total |
|---|---|---|---|---|
| | | | Rs. | Rs. |
| 1981 Jan.13 | Laxmi Das : | | | |
| | 20 bags Sugar @ Rs. 40 per bag | | 800 | |
| | 10 bags Rice @ Rs. 30 per bag | | 300 | 1,100 |
| | Purchases A/c Dr. | | | 1,100 |

SALES BOOK

| Date | Particulars | L.F. | Details | Total |
|---|---|---|---|---|
| | | | Rs. | Rs. |
| 1981 Jan.14 | Hari Das : | | | |
| | 10 tins Ghee @ Rs. 100 per tin | | 1,000 | |
| | 20 bags Sugar @ Rs. 50 per bag | | 1,000 | 2,000 |
| | Sales A/c Cr. | | | 2,000 |

PURCHASES RETURNS BOOK

| Date | Particulars | L.F. | Details | Total |
|---|---|---|---|---|
| | | | Rs. | Rs. |
| 1981 Jan.19 | Laxmi Das : | | 100 | 100 |
| | Purchases Returns A/c Cr. | | | 100 |

## SALES RETURNS BOOK

| Date | Particulars | L.F. | Details | Total |
|---|---|---|---|---|
| 1981 | | | Rs. | Rs. |
| Jan. 15 | **Hari Das :** | | | |
| | 2 tins Ghee @ Rs. 100 per tin | | 200 | |
| | 2 bags Sugar @ Rs. 50 per bag | | 100 | 300 |
| | Sales Returns A/c Dr. | | | 300 |

## JOURNAL PROPER

| Date | Particulars | L.F. | Dr. Amount | Cr. Amount |
|---|---|---|---|---|
| 1981 | | | Rs. | Rs. |
| Jan. 1 | Cash in hand Dr. | | 2,000 | |
| | Cash at Bank ,, | | 3,000 | |
| | Stock ,, | | 1,000 | |
| | Virendra Misra ,, | | 2,000 | |
| | Sagar Nizami ,, | | 1,000 | |
| | Furniture A/c ,, | | 500 | |
| | To Narendra Kumar | | | 1,000 |
| | To Ram Narain | | | 2,000 |
| | To Gokal Das | | | 1,000 |
| | To Jagdish Chaturvedi | | | 500 |
| | To Capital | | | 5,000 |
| | (For balances of last year brought in) | | | |
| ,, 10 | Furniture A/c Dr. | | 200 | |
| | To Ghasi Ram | | | 200 |
| | (For furniture purchased on credit) | | | |
| ,, 11 | Sunil Dr. | | 300 | |
| | To Old Machinery | | | 300 |
| | (For old Machinery sold to Sunil) | | | |

*Contd. on Next Page*

| Date | Particulars | L.F. | Dr. Amount | Cr. Amount |
|---|---|---|---|---|
| | | | Rs. | Rs. |
| Jan.20 | Laxmi Das Dr.<br>To Purchases A/c<br>(For the special allowance allowed to us by Laxmi Das in respect of goods purchased from him) | | 30 | 30 |
| „ 23 | Rajendra Kumar Dr.<br>To Old Furniture A/c<br>(For two old tables sold to him on Cr.) | | 10 | 10 |
| „ 26 | Bad Debts A/c Dr.<br>To Sagar Nizami<br>(For amount due on Sagar Nizami written off as Bad Debts) | | 250 | 250 |
| „ 31 | Interest A/c Dr.<br>To Narendra Kumar<br>(For interest due on Narendra Kumar's loan for one month) | | 25 | 25 |
| „ 31 | Drawings A/c Dr.<br>To Purchases<br>(For one bag of Sugar and 2 bags of rice taken by the proprietor for his personal use) | | 70 | 70 |
| | Grand Total | | 10,385 | 10,385 |

**Note 1.** On 10th January furniture has been purchased on credit. It cannot be entered into Purchases Book because it was not purchased for resale but for daily business use. It will be recorded in Journal Proper.

2. On 23rd January old furniture was sold to Rajinder Kumar. It will also be recorded in the journal proper and not in the Sales Book.

3. On 26th January there is a Bad Debt. It will also be recorded in the Journal Proper.

**Standard Questions**

1. Define 'Purchases Book' and 'Sales Book'.
2. What do you understand by Sales Returns Book and Purchases Returns Book ?
3 Define Journal Proper. For what purposes is it used in the modern business world ?
4. What is Purchases Book ? What other names can you give to

it ? For what purposes does a trader keep a Purchases Book ? Where will you record cash purchases ? Rule a columnar form of Purchases Book.

5. What is a 'Special Purpose Subsidiary Book' ? Give a specimen of such a book showing at least five entries.
*(All India Senior School Certificate Exam., 1978)*

6. What is a Journal proper ? How the entry relating to dishonour of a bill made when the bill is retained by the drawer till maturity ? *(D.S.S.C.E. 1978)*

7. Name the special purpose subsidiary books used in a big business house. *(D.S.S.C.E., 1979(C))*

**Practical**

**Purchases Book**

1. Enter the following transactions of Sanjay Kumar Chaturvedi in the Purchases Book :

**1981**

**March** 1 Purchased from Rajendra Bros., Mathura :
50 tins Ghee @ Rs. 200 per tin.
100 bags Sugar @ Rs. 20 per bag.
*Less* 10% trade discount.

" 2 Bought of Bharat Stores, Bombay :
20 bags Gram @ Rs. 30 per bag.
10 bags Sugar @ Rs. 20 per bag.
15 bags Wheat @ Rs. 40 per bag.
*Less* 10% trade discount.

" 30 Bought of Harish Kumar Gupta, Kaithal :
10 bags Sugar @ Rs. 55 per bag.
30 tins Ghee @ Rs. 100 per tin.

**Ans.** Total Rs. 15,610.

2. Enter the following transactions in the Columnar Purchases Book :

**1981**

**Jan.** 1 Bought of Yog Raj & Co. :
100 bags Sugar @ Rs. 100 per bag.
20 bags Rice @ Rs. 90 per bag.
30 bags Barley @ Rs. 40 per bag.
25 bags Wheat @ Rs. 80 per bag.

" 8 Bought of Ravi Chopra & Co. :
50 bags Sugar @ Rs. 25 per bag.
30 bags Rice @ Rs. 70 per bag.
70 bags Maize @ Rs. 30 per bag.
20 bags Wheat @ Rs. 80 per bag.

**Jan.** 25 Sunil Chaturvedi sold to us :
30 bags Sugar @ Rs. 150 per bag.
20 tins Ghee @ Rs. 150 per tin.
30 bags Rice @ Rs. 60 per bag.

**Ans.** Total Rs. 31,350.

**Sales Book**

3. Enter the following transactions in the Sales Book of Shri S.K Sharma & Co. :

1981

July 1 Sold to Brij Bhushan Kul Bhushan, Delhi :
100 chests Tea @ Rs. 50 per chest.
20 tins Cocoa @ Rs. 29 per tin.

,, 9 Sold to P.N. Chaturvedi & Co., Bombay :
30 bags Sugar @ Rs. 40 per bag.
20 bags Wheat @ Rs. 35 per bag.

,, 15 Sold to R S. Bhandari, Kanpur :
20 bags Gram @ Rs. 20 per bag.
15 tins Ghee @ Rs. 100 per tin.
35 bags Sugar @ Rs. 50 per bag.

Ans. Total 11,130.

4. Enter the following transaction in the Sales Book :

1981

March 1 Manga watch Co. Delhi purchased from us :
6 doz. Ansonia office clocks @ Rs. 15 each.
6 doz. Seiksh office clocks @ Rs. 5 each.
2 doz. Niagira office clocks @ Rs. 15 each.
*Less* 20% Trade Discount.

,, 20 Sold to Anil Chaturvedi, Mathura :
4 doz. West Clock Sleep-meter Alarm Time Pieces @ Rs. 30 each.
2 doz. West End Wrist Watches @ Rs. 30 each.
3 doz. 'Bee' time Pieces @ Rs. 25 each.
*Less* 10% Trade Discount.

Ans. Total Rs. 4,194.

5. Prepare Purchases and Sales Books of Hindustan General Merchants from the following transactions :—
1981

Sept. 1 Purchased from Ganga Ram Johri Mal, Agra :
20 tins Ghee @ Rs. 200 per tin.
25 bags Sugar @ Rs. 40 per bag.

,, 5 Sold to Gupta Stores, Kanpur :
20 bags Gram @ Rs. 30 per bag.
15 bags Barley @ Rs. 15 per bag.

,, 10 Purchased from Rastogi Bros , Meerut :
30 tins Ghee @ Rs. 180 per tin
15 bags Sugar @ Rs. 40 per bag.
*Less* 10% Trade Discount.

,, 20 Sold to Anil Gupta & Co , Agra :
20 bags Sugar @ Rs. 50 per bag
10 tins Ghee @ Rs. 225 per tin

Sept. 25 Bought of Sunil Bros., Aligarh :
10 tins Ghee @ Rs. 180 per tin
25 bags Sugar @ Rs. 40 per bag

" 26 Sold to Om Prakash & Co., New Delhi :
100 tins Ghee @ Rs. 170 per tin
200 bags Sugar @ Rs. 50 per bag

" 28 Bought of Santoth Bors., Moradabad :
10 tins Ghee @ Rs. 150 per tin
*Less* 10% Trade Discount

" 30 Sold to Ahuja Stores, Gandhi Nagar ;
100 bags Sugar @ Rs. 45 per bag
*Less* 10% Trade Discount

**Ans.** Total of Purchases Book Rs. 14,550.
Total of Sales Book Rs. 35,125.

**Purchases Returns Book and Sales Returns Book**

**6.** Purchases Returns Book of Ravindra Furniture House :—
1981

**Feb.** 1 Returned to Chaturvedi & Co. :
5 Stools @ Rs. 8 per Stool
10 Chairs @ Rs. 15 per Chair

" 10 Returned to Gupta Furniture Stores :
5 Tables @ Rs. 10 per Table
8 Stools @ Rs. 5 per Stool

" 28 Return to Ashok & Co. :
7 Tables @ Rs. 12 per Table
5 Stools @ Rs. 10 per Stool

**Ans.** Rs. 414.

**7.** Enter the following transactions in the Sales Returns Book o
Sunil Book Stores :—
1981

**Jan.** 5 Returned by Shree Mahavir Book Depot. :
20 copies of Book-keeping @ Rs. 2·50 each copy

" 10 Returned by Gupta Publications :
50 copies of Economics Made Easy @ Rs. 2·00
per copy

**Jan.** 15 Returned by Mathura Pustak Bhandar :
50 copies of Chemistry @ Rs. 5 per copy

" 25 Returned by Forward Book Depot :
10 copies of Hindi Grammar @ Rs. 2·00 per copy

**Ans.** Total Rs. 420.

**8.** Record the following transactions of Vinod Kumar Kapoor in the proper books :—

| 1981 | | | Rs. |
|---|---|---|---|
| Jan. | 1 | Cash in hand | 1,700 |
| ,, | 3 | Goods purchased from Ram Lal Babber | 200 |
| ,, | 7 | Goods sold to Santosh Kumar | 400 |
| ,, | 9 | Goods purchased from Vijay Kumar | 500 |
| ,, | 15 | Goods Returned from Santosh Kumar | 50 |
| ,, | 20 | Goods Returned to Ram Lal | 25 |
| ,, | 21 | Cash paid into Bank | 200 |
| ,, | 22 | Paid wages | 20 |
| ,, | 23 | Received from Harish Gupta | 500 |
| ,, | 31 | Paid for salaries | 100 |
| ,, | 31 | Furniture purchased from Vijay Ahuja | 200 |

**Ans.** Cash in hand Rs. 1,880 ; P. Book Rs. 700 ; S. Book Rs. 400 ; R.I. Rs. 50 ; R.O. Rs. 25 ; Total of Journal Rs. 200.

**9.** Record the following transactions in the proper books of Sunil Kumar :—
1980

March 1 *Assets* : Cash in hand Rs. 3,200 ; Buildings Rs. 300 ; Furniture Rs. 1,303.

*Liabilities* : Vijay Rs. 103 ; Banmali Rs. 200 ; Capital Rs. 4,500.

| | | | Rs. |
|---|---|---|---|
| ,, | 3 | Goods purchased for cash | 2,000 |
| ,, | 5 | Bought of Harish Kumar | 1,000 |
| ,, | 6 | Jai Dayal bought from us | 2,000 |
| ,, | 8 | Hari Nath sold to us | 200 |
| ,, | 9 | Goods returned to Harish Kumar | 100 |
| ,, | 10 | Goods returned by Jai Dayal | 200 |
| ,, | 11 | Furniture purchased from Ahuja & Co. | 200 |
| ,, | 12 | Sale of old newspapers to Ram on credit | 25 |
| ,, | 15 | Old Machinery sold to Anil Kumar | 50 |
| ,, | 16 | Rent due to landlord | 100 |
| ,, | 20 | Charged interest on Capital @6% p.a. for one month | |
| ,, | 31 | Jai Dayal became insolvent and 50 P. in a rupee received from his official receiver. | |

**Ans.** Cash Balance Rs. 2,100 ; P.B. Rs. 1,200 ; S.B. Rs. 2,000 ; Purchases Returns Book Rs. 100 ; Sales Returns Book Rs. 200 ; Total of Journal Rs. 6,100·50.

**10.** Enter the following transactions in the proper books of Seth Ramesh Arora :—

| 1980 | | | Rs. |
|---|---|---|---|
| July | 31 | Cash in hand | 2,500 |
| ,, | 31 | Cash sales | 400 |
| ,, | 31 | Goods purchased from Narayan | 380 |
| ,, | 31 | Goods sold to Vinay Kumar | 500 |
| ,, | 31 | Cash paid to Brij Narayan | 700 |
| ,, | 31 | Goods returned to Narayan | 50 |
| ,, | 31 | Goods returned by Vinay Kumar | 100 |
| ,, | 31 | Goods purchased for Cash | 250 |
| ,, | 31 | Cash received from Vinay Kumar<br>allowed him discount | 300<br>20 |
| ,, | 31 | Cash paid into Bank | 500 |
| ,, | 31 | Old furniture purchased from Rajan & Co. | 200 |
| ,, | 31 | Goods taken for private use | 100 |
| ,, | 31 | One Radio-set purchased from Khanna & Co. on credit for private use | 300 |

**Ans.** Cash in hand Rs. 1,750 ; P. B. Rs. 380 ; P. R. B. Rs. 50 ; S. B. Rs. 500 ; S. R. B. Rs. 100 ; Journal Proper Rs. 600 ; Discount Dr. Rs. 20.

**11.** Enter the following transactions in the proper books of Raj Kumar:—

| 1980 | | | Rs. |
|---|---|---|---|
| April | 1 | Raj Kumar started business with cash | 20,000 |
| ,, | 2 | Goods purchased for Cash | 3,000 |
| ,, | 3 | Goods Purchased from Yog Raj | 4,000 |
| ,, | 4 | Sold goods for Cash | 6,000 |
| ,, | 5 | Goods sold to Chandra Kant | 5,000 |
| ,, | 6 | Goods returned by Chandra Kant | 1,000 |
| ,, | 7 | Goods returned to Yog Raj | 200 |
| ,, | 8 | Furniture purchased for Cash | 400 |
| ,, | 9 | Paid for wages | 100 |
| ,, | 10 | Cash received from Chandra Kant | 4,000 |
| ,, | 11 | Cash paid to Yog Raj<br>and he allowed us discount | 3,700<br>100 |
| ,, | 12 | Paid for charity | 200 |
| ,, | 13 | Goods sold for Cash | 6,000 |
| ,, | 14 | Goods purchased for Cash | 3,000 |
| ,, | 15 | Goods sold to Vinod Chopra | 5,000 |
| ,, | 16 | Goods purchased from Naresh Kumar | 2,000 |
| ,, | 17 | Goods returned by Vinod Chopra | 200 |
| ,, | 18 | Cash paid by Vinod Chopra<br>and we allowed him discount | 4,700<br>100 |

| | | | |
|---|---|---|---|
| April | 19 | Goods returned to Naresh Kumar | 200 |
| " | 20 | Cash paid to Naresh Kumar | 1,750 |
| | | and he allowed us discount | 50 |
| " | 21 | Old furniture sold to A. Kumar on credit | 200 |
| " | 23 | Old Newspapers sold to N. Kumar on credit | 25 |
| " | 23 | Paid for interest | 100 |
| " | 30 | Paid for Rent | 250 |
| " | 30 | Paid for salaries | 500 |

**Ans.** Cash in hand Rs. 27,700; Discount Dr. Rs. 100 & Cr. Rs. 150; P. B. Rs. 6,000; S. B. Rs. 10,000; P. R. B. Rs. 400; S. R. B. Rs. 1,200; Journal Proper Rs. 225.

# 7

# Trial Balance

"A Trial Balance is a statement of debit and credit totals or balances, extracted from the ledger with a view to test the arithmetical accuracy of the books."

We have seen that every businessman records all his transactions, first in subsidiary books and then posts them into various accounts in ledger. We have also seen that while balancing the individual accounts in ledger, there are three possibilities :

(*a*) The totals of both the sides of the accounts may balance equally. In such a case the account is automatically closed off.

(*b*) The total on the debit side may be more than that on the credit side. This excess of the debit side over the credit side of an account signifies a debit balance.

(*c*) The total on the credit side may be more than that on the debit side. This excess of the credit side over the debit side of an account signifies a credit balance.

We have also seen that under the Double Entry System, each transaction is recorded two times, once on the debit side of one account and again on the credit side of another account. It should mean that total of all the entries on the debit side of different accounts should tally with the total of all the entries on the credit side of all the accounts. Such an identity of the totals of the debit side of the accounts with the totals of the credit side of the accounts also indicates the maintenance of accounting equation.

For providing the accuracy of postings in a ledger periodically, balances in various accounts in the ledger are extracted, debit balances separated from credit balances, either on a sheet of paper or in a book. If the totals of the debit and credit balances agree, it is considered to be a proof of the arithmetical accuracy of postings. This is because there is always equal debit and credit entries for each transaction. Provided the postings and totals are correct, the total of debit balances should agree with the total of credit balances. The list of balances extracted for proving the accuracy of posting is called the Trial balance. However, it must always be remembered that :—

(*i*) Trial balance is always prepared on a *particular date*. That is why "As on ... (date)" is always written under the heading.

(*ii*) It is a comprehensive list of all the accounts in the ledger including cash account.

(*iii*) The balancing of the debits and the credits in a Trial balance indicate that the accounting equation has been maintained.

(iv) Disagreement of a Trial balance surely indicates the presence of some error or errors.

(v) Agreement of the totals of a trial balance can never be considered to be an *absolute or conclusive proof* of the correctness of the postings in the ledger. It can be *presumed* that the postings are correct.

**Methods of Preparing Trial Balance**

1. **By Total Method**—In this method totals of debit and credit columns are written and if the totals of both debit and credit are equal, it is assumed that there is no arithmetical error in the accounts

A Trial Balance has four columns—

(*a*) Particulars, (*b*) Ledger Folio. (*c*) Debit Total, (*d*) Credit Total.

2. **By Balance Method**—In this method balance of every account is written instead of its total This method is more convenient since adding is simple because of small amounts. It saves both time and labour. It contains four columns—

(*a*) Particulars, (*b*) L.F., (*c*) Debit Balance, (*d*) Credit Balance.

3. **Total and Balance Combined Method**—This is the combination of the above two methods. Thus it contains four columns of amount; two for totals and two for balances. This method involves more time and more labour. So it is not so popular.

**Illustration 7-1**

Post the following transactions into the Ledger and prepare Trial Balance by all the three methods :

| 1981 | | | |
|---|---|---|---|
| Jan. | 1 | Anil Kumar started business with cash | 5,000·25 |
| ,, | 2 | Goods purchased from V. Prasad on Credit | 200·50 |
| ,, | 3 | Goods sold to Prem Chandra | 500·12 |
| ,, | 4 | Goods purchased from Sohan Lal for Cash | 400·75 |
| ,, | 5 | Paid for wages (Unproductive) | 50·16 |
| ,, | 15 | Goods purchased from Prem Chandra | 100·19 |
| ,, | 17 | Goods sold to Om Prakash | 50·75 |
| ,, | 21 | Goods purchased from Chiranjit | 300·60 |
| ,, | 23 | Paid for interest | 15·20 |
| ,, | 24 | Goods purchased from Om Prakash | 200·18 |
| ,, | 28 | Cash Received from Prem Chandra | 100·50 |
| ,, | 31 | Cash paid to Chiranjit | 300·60 |
| ,, | 31 | Paid for Rent | 10·50 |
| ,, | 31 | Closing stock | 800·00 |

**Solution**

*Dr.* CAPITAL ACCOUNT *Cr.*

| Date | Particulars | L.F. | Amount | Date | Particulars | L.F. | Amount |
|---|---|---|---|---|---|---|---|
| 1981 | | | Rs. | 1981 | | | Rs. |
| Jan. 31 | To Balance c/d | | 5,000·25 | Jan. 1 | By Cash A/c | | 5,000·25 |
| Feb. 1 | | | | | By Balance b/d | | 5,000·25 |

*Dr.* CASH ACCOUNT *Cr.*

| Date | Particulars | L.F. | Amount | Date | Particulars | L.F. | Amount |
|---|---|---|---|---|---|---|---|
| 1981 | | | Rs. | 1981 | | | Rs. |
| Jan. 1 | To Capital A/c | | 5,000·25 | Jan. 4 | By Goods A/c | | 400·75 |
| ,, 28 | To Prem Chandra | | 100·50 | ,, 5 | ,, Wages A/c | | 50·16 |
| | | | | ,, 23 | ,, Interest A/c | | 15·20 |
| | | | | ,, 31 | ,, Chiranjit A/c | | 300·60 |
| | | | | ,, ,, | ,, Rent A/c | | 10·50 |
| | | | | ,, ,, | ,, Balance b/d | | 4,323·54 |
| | | | 5,100·75 | | | | 5,100·75 |
| Feb. 1 | To Balance b/d | | 4,323·54 | | | | |

*Dr.* GOODS ACCOUNT *Cr.*

| Date | Particulars | L.F. | Amount | Date | Particulars | L.F. | Amount |
|---|---|---|---|---|---|---|---|
| 1981 | | | Rs. | 1981 | | | Rs. |
| Jan. 2 | To V. Prasad | | 200·50 | Jan. 3 | By Prem Chandra | | 500·12 |
| ,, 4 | ,, Cash A/c | | 400·75 | ,, 17 | ,, Om Prakash | | 50·75 |
| ,, 15 | ,, Prem Chandra | | 100·19 | ,, 31 | ,, Balance c/d (Closing Stock) | | 800·00 |
| ,, 21 | ,, Chiranjit | | 300·60 | | | | |
| ,, 24 | ,, Om Prakash | | 200·18 | | | | |
| ,, 31 | ,, Gross Profit T/F to P&L A/c | | 148·65 | | | | |
| | | | 1,350·87 | | | | 1,350·87 |
| Feb. 1 | To Balance b/d | | 800·00 | | | | |

*Dr.* PREM CHANDRA *Cr.*

| Date | Particulars | L.F. | Amount | Date | Particulars | L.F. | Amount |
|---|---|---|---|---|---|---|---|
| 1981 | | | Rs | 1981 | | | Rs. |
| Jan. 31 | To Goods A/c | | 500·12 | Jan. 15 | By Goods A/c | | 100·19 |
| | | | | ,, 28 | ,, Cash A/c | | 100·50 |
| | | | | ,, 31 | ,, Balance c/d | | 299·43 |
| | | | 500·12 | | | | 500·12 |
| Feb 1 | To Balance b/d | | 299·43 | | | | |

*Dr.* V. PRASAD *Cr.*

| Date | Particulars | L.F. | Amount | Date | Particulars | L.F. | Amount |
|---|---|---|---|---|---|---|---|
| 1981 | | | Rs. | 1981 | | | Rs. |
| Jan. 31 | To Balance c/d | | 200·50 | Jan. 2 | By Goods A/c | | 200·50 |
| | | | | Feb. 1 | By Balance b/d | | 200·50 |

## RENT ACCOUNT

| Dr. | | | | Cr. | | | |
|---|---|---|---|---|---|---|---|
| 1981 | | | Rs. | 1981 | | | Rs. |
| Jan. 31 | To Cash A/c | | 10·50 | Jan. 31 | By P. & L. A/c | | 10·50 |

## WAGES ACCOUNT

| Dr. | | | | Cr. | | | |
|---|---|---|---|---|---|---|---|
| 1981 | | | Rs. | 1981 | | | Rs. |
| Jan. 5 | To Cash A/c | | 50·16 | Jan. 31 | By P & L A/c | | 50·16 |

## INTEREST ACCOUNT

| Dr. | | | | Cr. | | | |
|---|---|---|---|---|---|---|---|
| 1981 | | | Rs. | 1981 | | | Rs. |
| Jan. 23 | To Cash A/c | | 15·20 | Jan. 31 | By P & L A/c | | 15·20 |

## OM PRAKASH

| Dr. | | | | Cr. | | | |
|---|---|---|---|---|---|---|---|
| 1981 | | | Rs. | 1981 | | | Rs. |
| Jan. 17 | To Goods | | 50·75 | Jan 24 | By Goods A/c | | 200·18 |
| ,, 31 | To Balance c/d | | 149·43 | | | | |
| | | | 200 18 | | | | 200·18 |
| | | | | Feb. 1 | By Balance b/d | | 149·43 |

## CHIRANJIT

| Dr. | | | | Cr. | | | |
|---|---|---|---|---|---|---|---|
| 1981 | | | Rs. | 1981 | | | Rs. |
| Jan. 31 | To Cash A/c | | 300·60 | Jan. 21 | By Goods A/c | | 300·60 |

## TRIAL BALANCE
### As on (date)
### (By Total Method)

| Ledger Accounts | | | L.F. | Dr. Totals | Cr. Totals |
|---|---|---|---|---|---|
| | | | | Rs. | Rs. |
| Capital A/c | — | — | | — | 5,000·25 |
| Cash A/c | — | — | | 5,100·75 | 777·21 |
| Goods A/c | — | — | | 1,202·22 | 1,350 87 |
| Stock | — | — | | 800·00 | — |
| Prem Chandra | — | — | | 500·12 | 200·69 |
| V. Prasad | — | — | | — | 200·50 |
| Rent A/c | — | — | | 10·50 | |
| Wages A/c | — | — | | 50·16 | |
| Interest A/c | — | — | | 15·20 | |
| Om Prakash | — | — | | 50·75 | 200.18 |
| Chiranjit | — | — | | 300·60 | 300.60 |
| | | | | 8,030·30 | 8,300.30 |

## TRIAL BALANCE
As on (date)
(By Balance Method)

| Ledger Accounts | | | L.F. | Dr. Balance | Cr. Balance |
|---|---|---|---|---|---|
| | | | | Rs. | Rs. |
| Capital A/c | — | — | | — | 5,000·25 |
| Cash A/c | - | — | | 4,323·54 | — |
| Goods A/c | — | — | | — | 148·65 |
| Stock | — | — | | 800 | — |
| Prem Chandra | — | — | | 299·43 | — |
| V. Prasad | — | — | | — | 200·50 |
| Rent A/c | — | — | | 10·50 | — |
| Wages A/c | — | — | | 50·16 | — |
| Interest A/c | — | — | | 15·20 | — |
| Om Prakash | — | — | | — | 149·43 |
| | | | | 5,498·83 | 5,498·83 |

## TRIAL BALANCE
As on (date)
(By Total and Balance Method)

| Ledger Accounts | L. F. | Dr. Totals | Cr. Totals | Dr. Balance | Cr. Balance |
|---|---|---|---|---|---|
| | | Rs. | Rs. | Rs. | Rs. |
| Capital A/c | | — | 5,000·25 | — | 5,000·25 |
| Cash A/c | | 5,100·75 | 777·21 | 4,323·54 | — |
| Goods A/c | | 1,202·22 | 1,350·87 | — | 148·65 |
| Stock | | 800 | — | 800 | — |
| Prem Chandra | | 500·12 | 200·69 | 299·43 | — |
| V. Prasad | | — | 200·50 | — | 200·50 |
| Rent A/c | | 10·50 | — | 10·50 | — |
| Wages A/c | | 50·16 | — | 50·16 | — |
| Interest A/c | | 15·20 | — | 15·20 | — |
| Om Prakash | | 50·75 | 200·18 | — | 149·43 |
| Chiranjit | | 300·60 | 300·60 | — | |
| | | 8,030·30 | 8,030.30 | 5,498.83 | 5,498.83 |

### Objects and Functions of Trial Balance

The following are the objects and functions of trial balance :

(*i*) When the trial balance tally, it is presumed that the postings in ledger have been done without committing any arithmetical error. The ledger postings are said to have been *proved.*

(*ii*) It serves as a summary of all the ledger accounts and provides a complete picture of each account in the ledger.

(*iii*) It serves as a base for preparation of Final Accounts and other financial statements.

(*iv*) It helps in locating errors which might have been committed while posting subsidiary books in ledger.

**Limitations of Trial Balance**

No doubt trial balance is a useful statement which helps in checking the postings and preparation of final accounts and financial statements, but there are many errors which may remain undetected for their existence do not affect the agreement of Trial balance. The following are the types of errors which will not affect the trial balance :

(*i*) **Errors of omission :** If any transaction is not recorded in the book of original entry, it will not affect the ledger accounts from which the trial balance is prepared, as neither the debit nor the credit aspect of the transaction will be affected in the ledger. The accounting equation will also not be disturbed.

(*ii*) **Mistakes in Subsidiary book :** A mistake in the book of original entry will also not affect the trial balance. As for example, we received Rs. 500 from Narinder Kumar, but entered the same in cash book as Rs. 50. Trial balance will not be affected as the double entry has been made for Rs. 50 in place of Rs. 500.

(*iii*) **Errors of Commission :** Such errors are also called mispostings. Purchases may be recorded in the sales book, or Ram's A/c is debited in place of Shyam, such errors will not disturb the trial balance.

(*iv*) **Errors of Principle :** If a certain principle of book-keeping has not been followed while recording a transaction, it will not disturb the trial balance because the dual aspect has been recorded somewhere. For example, if we spend on repairs to building and instead of debiting it to repairs A/c (revenue expenses) we debit it to buildings A/c (capital expenditure), it will not affect the trial balance.

(*v*) **Compensating Errors :** There may be more than one error which may nullify the effects of one another. A short amount entered on debit may be nullified by another short amount on the credit side and *vice versa*. Such errors would compensate each other and they will not affect the trial balance.

**Errors Disclosed by Trial Balance**

There are some errors which affect the trial balance. These are the errors where dual aspect of a transaction has not been completed. These are the errors which disturb the accounting equation and also affect the trial balance. They are :

(1) **Omission in posting of one aspect of an entry :** While posting of one of the aspect of an entry is not posted, it will affect the Trial Balance.

(2) **Opposite Posting :** If instead of debiting an account, it is credited and *vice versa*, the Trial Balance would not tally. For example, if instead of writing Rs 100 on the debit side of Raj Kumar it is written on the credit side, the Trial Balance would not tally.

(3) **Errors in addition or subtraction :** If there is error in addition or subtraction of an account the Trial Balance will not agree.

(4) **Duplicate Posting of an entry :** The Trial Balance will not agree if an account is debited or credited more than once.

(5) **Incorrect Copying of Figures :** While posting from subsidiary books if wrong amount is posted to an account the Trial Balance will not agree. For example, Rs. 70·50 are written instead of Rs. 50·70.

(6) **Omissions :** Omissions may take place in posting or in entering an account in the Trial Balance. Trial Balance will not agree in such cases.

(7) **Incorrect totalling of a page :** If an account is prepared in more than one page there might be error in totalling on one page and also in carrying forward the total.

**Locating Errors when Trial Balance Disagrees**

If the Trial Balance does not agree, the question arises as to how would one proceed to locate the error(s). The following procedure should better be adopted. It would help to locate them and when such errors have been located, they should be rectified or set right. How they are to be rectified, has been discussed in the next chapter. The following steps should be taken to locate the errors in the Trial Balance :—

1. Check the totals of both the columns of the Trial balance, specially if the difference happens to be Rs. 1,000 or Rs. 100 or Rs. 10.
2. Reduce the difference to its half and check up those accounts having that figure. May be such an amount has been put on the wrong side, *viz.*, on the debit side in place of credit side or *vice versa.*
3. Confirm that cash balance and Bank balance have been taken into account in the trial balance.
4. Verify the cash discount A/c, *i.e.*, see that the totals of cash discount column in cash book have been posted into ledger.
5. Check the amounts listed in trial balance with the ledger accounts to see if they have been correctly copied.
6. Check up the list of debtors and creditors with the ledger accounts.
7. Check up if the totals of subsidiary books like the Purchases or Sales book have been duly posted in their respective accounts.

**Standard Questions**

1. What is Trial Balance ? How is Trial Balance prepared ? *(D.H.S., Prep. Punjab)*

2. What errors are not disclosed by Trial Balance or what are the limitations of Trial Balance ? *(D.H.S.)*

3. Is the agreement of a Trial Balance a conclusive proof of the accuracy of ledger accounts ? If not, what are the errors which remain undetected by the Trial Balance ?

4. What is a Trial Balance ? How is it prepared ? What mistakes remain undetected even though both the sides of the Trial Balance agree ?

5. What is a Trial Balance ? Describe the errors that are disclosed by trial balance.

6. "Trial Balance is not a conclusive proof as to be absolute accuracy of books of accounts." "It may agree and yet there may be some errors in the books remaining undisclosed." Explain.

7. (*a*) State the type of errors that are not disclosed by Trial Balance.

   (*b*) What steps would you take to detect the difference in the Trial Balance.

8. "A Trial Balance is only a *prima facie* evidence of the accuracy of the books." Comment on the statement.

9. Why a Trial Balance may not balance ? What are the objects and features of a Trial Balance ?

10. Give two examples of the types of errors that may remain undetected even after the preparation of Trial Balance.

    *(Delhi Senior School Certificate Exam., 1978* (*C*) )

11. Specify on which side of the trial balance the following ledger account balances will appear :

| | |
|---|---|
| (*a*) Sales | (*b*) Purchase returns |
| (*c*) Bills Payable | (*d*) Cash in hand |
| (*e*) Freight | (*f*) Bank loan |

    *(Delhi Senior School Certificate Exam., 1979* (*C*)

12. Prepare Trial Balance from Question No. 11 of Chapter No. 6

# 8

# Rectification of Errors

Sometimes the businessman commits errors while posting Ledger. But it is not necessary that such errors may be located at the same time. Errors are generally located after the accounts have been closed. Before knowing rectification of errors, it is necessary to know the kinds of errors. Errors can be classified as follows :

1. **Errors of Omission.** An error of omission takes place when a transaction is completely or partially not recorded in books of accounts. For example, goods purchased from Narendra Kumar was not recorded anywhere in account books. This error will not affect the agreement of Trial Balance. But if posting is not done in one of the accounts, this will affect the agreement of Trial Balance.

2. **Errors of Commission.** Errors of Commission take place when some transaction is incorrectly recorded in books of accounts. Following are the examples of such errors :

(*i*) Error in the Books of Original Entry.

(*ii*) Debiting or crediting one account instead of the other.

These two errors do not affect the agreement of Trial Balance.

(*iii*) Wrong balancing of an account.

(*iv*) Error in carrying forward the total or balance of an account to the next page.

(*v*) Error in carrying forward the total of a Subsidiary Book from one page to the other.

(*vi*) Casting of the same amount to two accounts.

(*vii*) Error in writing amount in an account. For example, debiting Prem Chand's A/c with Rs. 10 instead of Rs. 100.

(*viii*) Wrong balancing of the Cash Book.

(*ix*) Posting of an amount on the wrong side.

(*x*) Posting in one account and omitting of posting in the other account.

These errors affect the agreement of Trial Balance.

3. **Errors of Principle**—Errors of principle take place when a transaction is recorded without having regard to the fundamental principles of book-keeping and accountancy. For example, a

capital expenditure may be treated as a revenue expenditure or *vice versa*. Expenses incurred in constructing a godown are treated as repairs. Sometimes adjustments are not taken into consideration while preparing Final Accounts. These are errors of Principle. These errors, however, do not affact the agreement of Trial Balance.

4. **Compensating Errors.** Sometimes the deficiency of one error is compensated by another error. These are called compensating errors. For example, Rajinder Gupta's A/c was to be debited with Rs. 10 but it was debited with Rs. 100. Similarly, Harish Gupta's A/c was debited with Rs. 10 instead of Rs. 100. Both these errors compensate each other's deficiency and will not affect the agreement of Trial Balance.

Errors can be classified in another way also :

(*i*) Errors of Principle.

(*ii*) Clerical Errors.

These include

(*a*) Errors of Omission

(*b*) Errors of Commission

(*c*) Compensating Errors. (For chart see page 126)

**Rectification of Errors**

Errors are likely to occur while preparing accounts. When the Trial Balance of a businessman does not agree it is made to agree by placing the difference to Suspense Account. Efforts are then made to locate the arrors. There are two methods of rectifying errors.

1. **Rectifying by scoring out the wrong figure.** If the error is immediately discovered it is rectified by scoring out the wrong figure and writing the correct figure. This method may be alright while preparing domestic accounts. But in business accounts this is objectionable and such accounts will not be accepted by the court.

2. **Rectifying Entries.** In business accounts errors are rectified by passing entries.

**Rectification of Double-sided Errors**

Those errors that affect two accounts are called double-sided errors. Such entries are always rectified by rectifying entries. For example, received Rs. 200 from Murari Lal but credited to Girdhari Lal's A/c. This error will affect Murari Lal's A/c and also Girdhari Lal's A/c. Because of this error Murari Lal's credit balance will be reduced by Rs. 200 and Girdhari Lal's credit balance will be increased by Rs. 200. For rectifying such entries following rules should be followed :

1. **If an account has been debited by mistake, it should be credited while rectifying.**

**Classification of Errors**

- Clerical Errors
  - Errors of Omission
    - Partial Omission (Trial Balance will not agree)
    - Complete Omission (Trial Balance will agree)
  - Errors of Commission
    - Wrong Amount in Subsidiary Book (Trial Balance will agree)
    - Wrong Total in Subsidiary Book (Trial Balance will not agree)
    - Wrong posting in ledger (Trial Balance will not agree)
    - Posting on wrong side (Trial Balance will not agree)
    - Wrong Balance of Accounts (Trial Balance will not agree)
  - (Compensating Errors) (Trial Balance will agree)
- Errors of Principle
  - (*i*) Treating Capital expenditure as Revenue expenditure
  - (*ii*) Treating Revenue expenditure as Capital expenditure
  - (*iii*) Treating income as liability
  - (*iv*) Treating liability as income (Trial Balance will agree)

2. If an account has been credited by mistake, it should be debited while rectifying.

3. One aspect of the rectifying entry is obtained by reversing the entry by the above method and the other aspect can be obtained from the correct entry.

In the error mentioned above :

**Correct entry**

| | | | |
|---|---|---|---|
| Cash A/c | Dr. | 200 | |
| To Murari Lal | | | 200 |
| (For Cash received from Murari Lal) | | | |

**Wrong Entry**

| | | | |
|---|---|---|---|
| Cash A/c | Dr. | 200 | |
| To Girdhari Lal | | | 200 |
| (For Cash received from Girdhari Lal) | | | |

In the above transaction Murari Lal's A/c should have been credited but by mistake Girdhari Lal's A/c has been credited. Thus for rectifying entry Girdhari Lal's A/c will be debited and Murari Lal's A/c will be credited. Following will be the *rectifying entry* :

| | | | |
|---|---|---|---|
| Girdhari Lal | Dr. | 200 | |
| To Murari Lal | | | 200 |
| (For Cash received from Murari Lal wrongly credited to Girdhari Lal's A/c, now corrected). | | | |

Note. In the examination the students should pass the last entry only. The first two entries should be passed for the rough work only.

**Illustration 8-1.**

Rectify the following Errors :

1. Goods worth Rs. 20 sold to Anil Kumar were posted to the debit of Sunil Kumar's A/c.

2. Rs. 1,000 paid for furniture purchased had been charged to ordinary Purchases A/c.

3. Repairs made were debited to Buildings A/c Rs. 40.

4. An amount of Rs. 200 withdrawn by the trader for his personal use has been debited to Trade Expenses A/c.

5. Rs. 1,000 received on account of old machinery sold posted as cash sales.

**Solution**

RECTIFYING JOURNAL ENTRIES

| S. No. | Particulars | L.F. | Dr. Amount | Cr. Amount |
|---|---|---|---|---|
| | | | Rs. | Rs. |
| (1) | Anil Kumar Dr.<br>To Sunil Kumar<br>(For goods sold to Anil Kumar wrongly posted to Sunil Kumar's A/c, now corrected) | | 20 | 20 |
| (2) | Furniture A/c Dr.<br>To Purchases A/c<br>(For Furniture purchased wrongly debited to Purchases A/c, now corrected) | | 1,000 | 1,000 |
| (3) | Repairs A/c Dr.<br>To Buildings A/c<br>(For repairs made wrongly charged to Buildings A/c, now corrected) | | 40 | 40 |
| (4) | Drawings A/c Dr.<br>To Trade Expenses A/c<br>(For cash withdrawn by the trader for his personal use, wrongly debited to Trade Expenses A/c, now corrected) | | 200 | 200 |
| (5) | Sales A/c Dr.<br>To Old Machinery A/c<br>(For sale of old machinery posted to Sales A/c, now corrected) | | 1,000 | 1,000 |

**Explanation of the above entries :—**

(1) In this entry goods have been sold to Anil Kumar. So Anil Kumar's A/c should have been debited but the businessman has debited Sunil Kumar's A/c. So for passing rectifying entry Sunil Kumar's A/c will be credited because it was debited by mistake. Anil Kumar's A/c should be debited.

(2) In this transaction furniture has been purchased, so Furniture A/c should be debited but Purchases A/c has been debited. So in rectifying entry Furniture A/c will be debited and Purchases A/c will be credited.

(3) In this transaction Buildings A/c has been debited wrongly instead of Repairs A/c. So in rectifying entry Repairs A/c will be debited and Buildings A/c will be credited.

(4) In this transaction Trade Expenses A/c has been debited instead of Private Expenses A/c. So in rectifying entry Trade Expenses A/c will be credited and Private Expenses A/c will be debited.

(5) In this transaction old machine has been sold out. So Old Machinery A/c should be credited. But instead Sales A/c has been credited Thus in rectifying entry Sales A/c will be debited and Old Machinery A/c will be credited.

**Illustration 8-2.**

The following errors were found in the books of Bhagwan Bros. Give the necessary entries to correct them :—

(1) Rs. 50 paid for rent debited to Landlord's A/c.

(2) A sum of Rs. 1,000 spent on extension of Buildings was debited to Repairs to Buildings A/c.

(3) A clerk of the firm was paid Rs. 60 as salary. This amount was debited to his Personal A/c.

(4) Goods to the value of Rs 300 returned by Narendra Kumar & Co. were taken into stock but the returns were not entered in the books.

(5) A cheque of Rs. 250 paid to Babu Lal had been debited to Shyam Lal's Account.

(6) A cheque of Rs. 300 received from Surendra & Co., was dishonoured and debited to Allowances A/c.

(7) Rs. 100 posted to the debit of stationery; instead of to Harish Kumar in payment of his account.

(8) Rs. 40 for wages to workmen for erecting the firm's new machinery, charged to Wages A/c.

(9) Rs. 20 cost of repairing the roof of a shed, charged to Buildings A/c.

(10) Interest accrued on Investments Rs. 375.

**Solution**

## RECTIFYING JOURNAL ENTRIES

| S. No. | Particulars | L.F. | Dr. Amount | Cr. Amount |
|---|---|---|---|---|
| | | | Rs. | Rs. |
| (1) | Rent A/c Dr.<br>To Landlord's Personal A/c<br>(For rent debited to Landlord's A/c, now corrected) | | 50 | 50 |
| (2) | Buildings A/c Dr.<br>To Repairs A/c<br>(For extension of buildings, wrongly debited in Repairs A/c, now corrected) | | 1,000 | 1,000 |
| (3) | Salaries A/c Dr.<br>To Clerk's Personal A/c<br>(For salaries, wrongly debited to clerk's A/c, now corrected) | | 60 | 60 |
| (4) | Sales Returns A/c Dr.<br>To Narendra Kumar & Co.<br>(For goods returned by N. Kumar & Co. not entered in the books, now corret-ed) | | 300 | 300 |
| (5) | Babu Lal Dr.<br>To Shyam Lal<br>(For cheque paid to Babu Lal, wrongly debited to Shyam Lal, now corrected) | | 250 | 250 |
| (6) | Surendra & Co. Dr.<br>To Allowances A/c<br>(For his cheque dishonoured and wrongly debited to Allowances A/c, now corrected) | | 300 | 300 |
| (7) | Harish Kumar Dr.<br>To Stationery A/c<br>(For Stationery A/c was wrongly debited instead of Harish Kumar's A/c, now corrected) | | 100 | 100 |
| (8) | Machinery A/c Dr.<br>To Wages A/c<br>(For wages paid for erection of new machinery, debited to Wages A/c, now corrected) | | 40 | 40 |
| (9) | Repairs A/c Dr.<br>To Buildings A/c<br>(For cost of repairing roof, wrongly debited to Buildings A/c, now corrected) | | 20 | 20 |
| (10) | Accrued Interest A/c Dr.<br>To Interest<br>(For interest accrued on investments) | | 375 | 375 |

**Note 1.** In Entry No. 4 Goods worth Rs. 300 have been returned by Narendra Kumar & Co. But it was not recorded anywhere. For rectifying the same this transaction will now be recorded.

2. In Entry No. 8 wages are paid for erecting a new machine which have been debited to Wages A/c. Actually expenses paid in erecting a new machine should be treated as a part of the cost of the machine and debited to Machinery A/c.

**Rectification of Single-sided Errors**

1. **Errors disclosed before the Closing of Accounts.** Those errors that affect only one account are called single-sided errors. For example, we paid Rs. 200 to Brijender Kumar. It was recorded in the Cash Book but nothing was written in Brijender Kumar's A/c. This error will affect only Brijender Kumar's A/c. So in Brijender Kumar's A/c following entry will be passed—"To Omission of Entry in the account—Rs. 200". Suppose Sales A/c was undercast by Rs. 10 by mistake. On the credit side of the Sales A/c following entry will be passed—"By Undercasting of the Sales Book Rs. 10".

2. **Errors Disclosed after the Closing of Accounts.** When error is disclosed after closing of accounts. a complete journal entry is passed. For rectifying such entries a suspense A/c is opened.

**Suspense A/c.** If the Trial Balance does not agree, the difference is put to a Suspense A/c and accordingly carried to the Assets or Liabilities side of the Balance Sheet, as the case may be. In future as the errors are disclosed they are rectified.

A Suspense A/c is also opened when the businessman has any doubt about the party of any amount. For example, goods worth Rs. 100 were sold to Rajender Gupta, but the businessman forgot the name of the party. A Suspense A/c will be opened in such a case. All single-sided errors can be rectified with the help of Suspense A/c.

**Illustration 8-3.**

**Error.** A sum of Rs. 95 written off for depreciation on furniture has not been posted to the Depreciation A/c.

**Rectification.** In this transaction entry has not been done in Depreciation A/c. So it will be rectified as follows :

| | | Rs. | Rs. |
|---|---|---|---|
| Depreciation A/c | Dr. | 95 | |
| To Suspense A/c | | | 95 |
| (For depreciation on furniture left to be posted to the Depreciation A/c, now posted) | | | |

**Error.** The total of the Sales Returns Book has been added Rs. 9 short.

| | | Rs. | Rs. |
|---|---|---|---|
| Sales Returns A/c | Dr. | 9 | |
| To Suspense A/c | | | |
| (For the total of Sales Returns Book has been undercast, now corrected) | | | |

**Illustration 8-4.**

**Correct the following errors discovered by a trader's Accountant without preparing Suspense Account :**

(1) Goods purchased for Rs. 50 have been wrongly posted to the debit of the supplier Banwari Lal.

(2) The total of the Sales Book has been overcast Rs. 100.

(3) The total of the Purchases Book has been overcast Rs. 15.

(4) Discount allowed to Satya Prakash Rs. 100 has not been entered into Discount Column of the Cash Book but it has been posted to his Personal Account.

(5) The total of the Sales Returns Book has been undercast by Rs. 25.

**Solution**

CORRECTION OF ERRORS

| Date | Particulars | L.F. | Dr. Amount | Cr. Amount |
|---|---|---|---|---|
| | | | Rs. | Rs. |
| (1) | Following entry will be passed on the Credit side of Banwari Lal's A/c<br>By Error in posting to the wrong side. | | | 100 |
| (2) | Following entry on the Debit side of Sales A/c will be passed :<br>To Overcast of Sales Book | | 100 | |
| (3) | Following entry on the Debit side of Purchases A/c will be passed :<br>To undercast of Purchases Book | | 15 | |
| (4) | In the Dr. discount Columns of the Cash Book following entry will be passed :<br>To Omission of entry in the Cash Book | | 100 | |
| (5) | On the Debit side of the Sales Returns A/c following entry will be passed :<br>To undercast of Sales Returns Book | | 25 | |

**Illustration 8·5**

Give Journal entries to rectify the errors in the following :

(*a*) A purchase of goods from David amounting to Rs. 150 has been wrongly posted through the Sales Book.

(*b*) A credit sale of goods worth Rs. 120 to Peter has been wrongly passed through the Purchases Book.

(*c*) Rs. 300 salary paid to Cashier B. Naidu stands wrongly debited to his Personal Account.

(*d*) Rs. 100 received from Harish Kumar Gupta & Co., have been wrongly entered as from Shah & Co.

**Solution**

RECTIFYING JOURNAL ENTRIES

| S. No. | Particulars | | L.F. | Dr. Amount | Cr. Amount |
|---|---|---|---|---|---|
| | | | | Rs. | Rs. |
| (a) | Purchases A/c | Dr. | | 150 | |
| | Sales A/c | ,, | | 150 | |
| | To David | | | | 300 |
| | (For goods purchased from David wrongly entered in Sales Book, now corrected) | | | | |
| (b) | Peter | Dr. | | 240 | |
| | To Purchases A/c | | | | 120 |
| | To Sales A/c | | | | 120 |
| | (For goods sold to Peter wrongly debited in Purchases Book, now corrected) | | | | |
| (c) | Salaries A/c | Dr. | | 300 | |
| | To B. Naidu | | | | 300 |
| | (For salary paid to B. Naidu wrongly debited to his Personal A/c, now corrected) | | | | |
| (d) | Shah & Co. | Dr. | | 100 | |
| | To Harish Kumar Gupta & Co. | | | | 100 |
| | (For Shah & Co.'s A/c wrongly credited, now corrected) | | | | |

**Illustration 8-6**

Rectify the following Errors :

(*a*) Goods valued at Rs. 750 were purchased, received and taken into stock, but were not recorded in the books.

(*b*) Expenses outstanding : Wages Rs. 650 ; Salaries Rs. 450 ; Advertisement Rs. 250 ; Lawyer's charges Rs. 100 ; Electricity charges Rs. 175.

(*c*) Interest accrued on Investment Rs. 375.

(*d*) Goods costing Rs. 250 were taken away by the trader for his personal use, and goods costing Rs. 500 were given away free to a hospital.

(*e*) Depreciation to be written off : Buildings Rs. 2,500 ; Machinery Rs. 12,500 ; Motor Vehicles Rs. 3,500 : Furniture Rs. 300.

(*f*) A reserve of Rs. 800 is to be created for bad and doubtful debts.

(*g*) Rs. 650 cash stolen by an ex-employee stood debited to a Suspense Account.

**Solution**

RECTIFYING JOURNAL ENTRIES

| S. No. | Particulars | L.F. | Dr. Amount | Cr. Amount |
|---|---|---|---|---|
| | | | Rs. | Rs. |
| (a) | Purchases A/c Dr. | | 750 | |
| | To Creditor's Personal A/c | | | 750 |
| | (For Goods purchased but not entered in the books, now entered) | | | |
| (b) | Wages A/c Dr. | | 650 | |
| | Salaries A/c ,, | | 450 | |
| | Advertising A/c ,, | | 250 | |
| | Lawyer's Charges A/c ,, | | 100 | |
| | Electricity Charges A/c ,, | | 175 | |
| | To Outstanding Expenses A/c | | | 1,625 |
| | (For various expenses, for the period being unpaid) | | | |
| (c) | Accrued Interest A/c Dr. | | 375 | |
| | To Interest A/c | | | 375 |
| | (For Interest accrued on Investments) | | | |
| (d) | Drawings A/c Dr. | | 250 | |
| | To Purchases A/c | | | 250 |
| | (For goods taken away by the proprietor for his private use) | | | |
| ,, | Charity A/c Dr. | | 500 | |
| | To Purchases A/c | | | 500 |
| | (For goods given away free to a hospital) | | | |
| (e) | Depreciation A/c Dr. | | 18,800 | |
| | To Buildings A/c | | | 2,500 |
| | To Machinery A/c | | | 12,500 |
| | To Motor Vehicles A/c | | | 3,500 |
| | To Furniture A/c | | | 300 |
| | (For depreciation written off on various assets) | | | |
| (f) | Profit and Loss A/c Dr. | | 800 | |
| | To Reserve for Bad and Doubtful Debts A/c | | | 800 |
| | (For amount charged to P. & L. A/c to create a reserve of Rs. 800) | | | |
| (g) | Profit and Loss A/c Dr. | | 650 | |
| | To Suspense A/c | | | 650 |
| | (For amount of cash stolen, wrongly debited to Suspense A/c, now corrected) | | | |

**Illustration 8-7.**

While preparing the accounts of a firm for the year ending 31st December, 1980 you find that the following matters are required to be dealt with :

1. A car on which depreciation had been regularly written off in the books every year at 20 per cent on the diminishing balance, stood in the books at Rs. 11,000 on 1st January, 1980 was sold off for Rs. 8,500 on 1st June, 1980 when a new car was purchased for Rs. 25,000.

2. Included in the accounts are plant and machinery Rs. 20,000, investments Rs. 32,000 and loose tools at Rs. 2,780 as at 1st January, 1980.

Plant and machinery are to be written down by 10 per cent and loose tools in hand at the close of the year are valued at Rs. 1,950.

3. During the year certain investments were sold for Rs. 7,500 at a profit of Rs. 1,500 and passed through sales account.

4. Loose tools have been purchased for Rs. 2,400 in respect of which carriage for Rs. 50 has been expended, the items being charged respectively to purchases and carriages.

You are required to show the above adjustments in the books of the firm by means of Journal entries.

**Solution**

RECTIFYING JOURNAL ENTRIES

| S. No. | Particulars | | L.F. | Dr. Amount | Cr. Amount |
|---|---|---|---|---|---|
| | | | | Rs. | Rs. |
| (i) (a) | Depreciation A/c | Dr. | | 3,834 | |
| | To Motor Vehicles A/c | | | | 3,834 |
| | (For Dep. on Rs. 11,000 for 5 months Rs. 917 and Dep. on Rs. 25.000 for 7 months Rs. 2,917) (Rs. 917+2,917=Rs. 3,834) | | | | |
| (b) | Profit & Loss A/c | Dr. | | 1,583 | |
| | To Motor Vehicles A/c | | | | 1,583 |
| | (For loss on car sold) | | | | |
| | Book Value Rs. 11,000—Rs. 917= | 10,083 | | | |
| | —Cash realised | 8,500 | | | |
| | | 1,583 | | | |
| (ii) | Depreciation A/c | Dr. | | 2,830 | |
| | To Plant & Machinery A/c | | | | 2,000 |
| | To Loose tools Account | | | | 830 |
| (iii) | Sales A/c | Dr. | | 7,500 | |
| | To Investments A/c | | | | 6,000 |
| | To Profit on investments A/c | | | | 1,500 |
| (iv) | Loose tools A/c | Dr. | | 2,450 | |
| | To Purchases A/c | | | | 2,400 |
| | To Carriage A/c | | | | 50 |

**Note**—Students write narration themselves.

**Illustration 8-8.**

Parmanand closed his books on 31st March, 1981, on that date you find the following :

(*i*) Materials from store Rs. 500 and wages Rs. 200 had been used in making tools and implements for use in his own factory, but no adjustments were made in the books.

(*ii*) Rs. 100 paid in instalments to an injured worker, pending the settlement of workman's compensation claim against the Insurance Company, was debited to the wages account.

(*iii*) Goods worth Rs. 1,000 purchased from Yogesh on 25th March, 1981 had been entered in the purchases book but the delivery of the goods was not received until 8th April, 1981.

(*iv*) Goods (cost price Rs. 3,600; minimum sale price Rs. 4,500) had been consigned to an agent, but were still unsold.

**Solution**

| S. No. | Particulars | L.F. | Dr. Amount Rs. | Cr. Amount Rs. |
|---|---|---|---|---|
| (*i*) | Tools & Implements A/c Dr.<br>To Purchase of materials A/c<br>To Wages A/c | | 700 | <br>500<br>200 |
| (*ii*) | Workman's Compensation claim A/c Dr.<br>To Wages A/c | | 100 | <br>100 |
| (*iii*) | Goods-in-transit A/c Dr.<br>To Purchases A/c | | 1,000 | <br>1,000 |
| (*iv*) (*a*) | Consignment Stock A/c Dr.<br>To Consignment A/c | | 4,500 | <br>4,500 |
| (*b*) | Consignment A/c Dr.<br>To Consignment Stock Suspense A/c | | 900 | <br>900 |

Note—Students write narration themselves.

**Effect of Rectifying of Errors on Profit and Loss Account and Balance Sheet**

Some of the errors affect the Profit and Loss A/c and others affect the Balance Sheet. The samething applies to their rectification. There are errors in those accounts which appear in the Profit and Loss A/c *e.g.*, Salaries A/c, Commission A/c, Purchases A/c, Sales A/c, etc. While rectifying, if these accounts are debited the profit is reduced and if these accounts are credited the profit is increased. Those accounts that appear in the Balance Sheet, do not affect the

Profit and Loss A/c. Following points should be kept in mind in this connection :

(*i*) When a wrong account is written on the debit side of a Nominal Account, the profit of the business is reduced. But when rectifying entry is passed, the loss is decreased and the profit is increased.

(*ii*) When an amount is not written by mistake on the debit side of a Real Account, the profit is increased and the loss is decreased. But when rectifying entry is passed the profit is decreased and the loss is increased.

(*iii*) When an amount is written on the credit side of the Nominal A/c by mistake, it increases the profit and decreases the loss. But when rectifying entry is passed the profit is reduced and the loss is increased.

(*iv*) When an amount is not written by mistake on the credit side of a Nominal A/c the profit is reduced and the loss is increased. But when rectifying entry is passed the profit is increased and the loss is reduced.

**Illustration 8-9**

The accountant of Yogesh's firm committed the following errors which were disclosed at a later date.

(*i*) The Sales Book was overcast by Rs. 200.

(*ii*) Rent received Rs. 100 from a tenant was debited to the Rent A/c.

(*iii*) Received Rs. 500 from Sunil Agarwal was entered in the credit of Sales A/c.

(*iv*) Paid Rs. 200 for Salaries were debited to Salaries A/c as Rs. 20 only.

(*v*) A sale of Rs. 50 was not entered into Ledger.

(*vi*) Rs. 20 paid for repairs were written as Rs. 25 in the Repairs A/c.

How will the above errors affect the Final Accounts ?

**Solution**

EFFECT OF ERRORS ON THE FINAL ACCOUNTS

| S. No. | Effect on P. & L. A/c | Effect on B/S |
|---|---|---|
| (*i*) | Gross Profit and Net Profit will increase by Rs. 200. | The Capital will increase by Rs. 200. |
| (*ii*) | Net Profit will decrease by Rs. 100. | The Capital will decrease by Rs. 100. |
| *iii*) | Gross Profit and Net Profit will increase by Rs. 500. | The Capital and Debtors A/c will increase by Rs. 500. |
| *iv*) | Net Profit will increase by Rs. 180. | The Capital will increase by Rs. 180. |
| (*v*) | Net Profit will increase by Rs. 50. | The Capital will decrease by Rs. 50. |
| (*vi*) | Net Profit will decrease by Rs. 5. | The Capital will decrease by Rs. 5. |

**After Preparing the Final Accounts**

Every businessman is interested in finding out the separate profit of every year. Therefore, it is essential that he should rectify the errors of the last year in such a manner as not to influence the profit or loss of the current year. We can take up an example. An error of 1979 is rectified in 1980 by debiting the Purchases A/c. This amount would be added as an example in the year 1980 and the Net Profit will not be corrected. Thus we cannot debit the Purchases A/c.

If the Final Accounts of the businessman are complete and after that an error is disclosed, we can open a new account, Profit and Loss Adjustment A/c. This account can be used instead of Trading A/c or Profit and Loss A/c. Errors will be rectified through Profit and Loss Adjustment A/c and the profit or loss of the current year will not be affected. The balance of this account will be transferred to the Capital A/c.

**Important Points**

(1) Profit and Loss Adjustment A/c will be opened only when the error is being rectified in the next trading period.

(2) It can be used only for those items that appear in the Trading A/c and Profit and Loss A/c.

(3) For opening the Profit and Loss Adjustment A/c the profit or loss of the current year remains unaffected and also the errors are rectified.

If we assume that in illustration 8-5 errors were disclosed in the next trading period, following journal entries will be passed :

| Date | Particulars | L.F. | Dr. Amount | Cr. Amount |
|---|---|---|---|---|
| | | | Rs. | Rs. |
| (a) | P. & L. Adjustment A/c Dr.<br>To David<br>(For the profit of the last year decreased) | | 300 | 300 |
| (b) | Peter Dr.<br>To P. & L. Adjustment A/c<br>(For the Profit of the last year increased) | | 240 | 240 |
| (c) | P. & L. Adjustment A/c Dr.<br>To B. Naidu<br>(For the Profit of the last year decreased) | | 300 | 300 |
| (d) | Shah & Co.<br>To Harish Kumar Gupta & Co.<br>(For Shah & Co. A/c wrongly credited, now rectified) | | 100 | 100 |

Note 1. In this entry we have debited P. & L. Adjustment A/c instead of Purchases A/c and Sales A/c which appear in the Trading A/c

2. In this entry we have credited the P. & L. Adj. A/c instead of Purchases A/c and Sales A/c which appear in the Trading A/c.

3. In this entry we have debited P. & L. Adj. A/c instead of Salaries A/c which goes to the P. & L. A/c.

**Rectification of Errors through Capital Account**

Sometimes when the Trial balance does not agree, then the difference is transferred to capital account instead of Suspenses A/c and the final accounts are prepared. During the cour e of next year when the errors are found, they are rectified by either debiting or crediting the capital account. Usually, when rectification affects some Nominal account, the transfer entry is not made. Transfer entry is only passed when some Personal or real account is affected.

Let us have an illustration to get a clearer understanding.

**Illustration 8-10**

The trial balance extracted from the books of Mohan on 31st December, 1980 had not agreed. The difference was transferred to the Capital Account. In 1981 the following errors were discovered :

(i) The total of one page of the Sales Book was carried forward to the next page as Rs. 6,785 instead of Rs. 6,587.

(*ii*) The total of Purchases Book was Rs. 1,000 short.

(*iii*) A sale of Rs. 350 to Dutta was entered in the Sales Book as Rs. 530.

(*iv*) Cash received Rs. 150 from M. Roy was debited in the Sales Ledger, to the account of N. Roy.

(*v*) Rs. 580 spent on repairs to the Delivery Van was debited to Motor Vehicles Account as Rs. 580.

(*vi*) The total of the discount column in the Cash Book on the debit side was Rs. 385 on one page but was carried forward to the next page as Rs. 538.

(*vii*) Goods returned, Rs 200 by Mirza were not entered in the books at all.

You are required to give journal entries to rectify the errors in a way not to affect the profit or loss for 1981.

**Solution**

RECTIFYING JOURNAL ENTRIES

| | | Rs. | Rs. |
|---|---|---|---|
| (*i*) | No entry as Capital Account was wrongly debited and credited by Rs. 198 in 1980. Capital Account was debited because credit side of the trial balance was more by Rs. 198 due to increased figure of Sales Account in the trial balance. Capital Account was credited because profit of 1980 was increased as a result of higher figure of sales. | — | — |
| (*ii*) | No entry as Capital Account was wrongly debited and credited by Rs. 1,000. Capital Account was debited because credit side of the trial balance was more by Rs. 1,000 due to lower figure of Purchases Account in the trial balance. Capital Account was credited in the form of increased profit as a result of lower figure of purchases in the Trading Account of 1980. | — | — |
| (*iii*) | Capital Account Dr.<br>To Dutta<br>(For wrong debit to Dutta's Account and wrong credit to Capital Account (through increased profit as a result of increased sales) in 1980, now rectified). | 180 | 180 |
| (*iv*) | Capital Account Dr.<br>To N. Roy<br>To M. Roy<br>(For cash received from M. Roy was credited to N. Roy instead of crediting M. Roy's Account, now rectified) | 300 | 150<br>150 |
| (*v*) | Capital Account Dr.<br>To Motor vehicles Account<br>(For amount spent on repairs wrongly debited to Motor Vehicles Account, now corrected) | 580 | 580 |

**Standard Questions**

1. What are the different classes of errors ? Which of them affect Trial Balance ? *(S.S.C. Delhi, 1980 Comptt.)*
2. What is a Rectifying Entry ? *(D.H.S.)*
3. How errors be rectified ? Explain with illustrations.
4. What is Suspense A/c ? When is it opened ?
5. Explain the different kinds of errors that usually arise in account-keeping and how they should be rectified ?
6. Explain briefly the following :
   (*i*) Errors of Omission ; (*ii*) Errors of Principle
   (*iii*) Errors of Commission ; (*iv*) Compensating Errors.
7. (*a*) Give two examples of the types of errors that may remain undetected even after the preparation of Trial Balance.

   (*b*) Rupees five hundred previously written off as bad debts to Ram's A/c were later on received and duly credited to his account.

   What is the error in it ?

   How should it be rectified ?

   *(Delhi Senior School Certificate Exam., 1978)*
8. Give two examples of errors of principle.
   *(Delhi Senior School Certificate Exam., 1979)*
9. Give two examples of Compensating Errors.
   *(S. S. C. Delhi, 1980)*

**Practical**

1. Rectify the following errors :
   (*i*) Furniture purchased for Rs. 250 was debited to Purchases Account.
   (*ii*) A sum of Rs. 100 paid to Ram was debited to Shyams's Account.
   (*iii*) A Bill Receivable for Rs. 500 received from Ram has been omitted to be entered.
   (*iv*) Goods worth Rs. 200 taken away by the proprietor was debited to *B*.
   (*v*) An engine purchased for Rs. 1,250 had been posted to Purchases Account.

2. Recctify the following Errors :
   (1) The purchase of stationery Rs. 25 was debited to Trade Expenses A/c.
   (2) Rs. 200 received from Sunil Kumar & Co. have been wrongly-entered as from Sanjay Kumar & Co.
   (3) Rs. 100 salary paid to the manager Sanjay Kumar stands wrongly debited to his Personal A/c.

(4) Rs. 20 paid for repairs wrongly debited to Buildings Account.

(5) A cheque of Rs. 100 paid to Santosh Gupta wrongly debited to Usha Gupta's A/c.

**3.** The following errors were made by the Book-keeper of Vir Bakers. How would you adjust these errors :

(*a*) Goods worth Rs. 30 sold to Staya Prakash were posted to the debit of Naresh Kumar.

(*b*) Rs. 25 cost of repairing the roof of shed wrongly charged to Building Account.

(*c*) Rs. 1,000 paid for furniture purchased had been charged to ordinary Purchases Account.

(*d*) A sum of Rs. 20 paid by way of rent was debited to Landlord's Personal A/c.

**4.** The Book-keeper of Vijay Kumar & Co. has made the following mistakes in posting of Accounts :

(*a*) Machinery sold for Rs. 5,000 has been posted as cash sales.

(*b*) A sum of Rs. 75 paid by way of rent was debited to Landlord's Personal A/c.

(*c*) Another sum of Rs. 500 paid for repairs of office fixtures was debited to Office Fixtures A/c.

(*d*) Goods worth Rs. 1,000 returned by Jai Prakash were received in stock but no entry was made in the accounts books.

How will the above mistakes be rectified ? Pass the necessary entries in the regular form :

**5.** Rectify any three of the following errors :

(*a*) The total of the Purchases Book was cast shortly by Rs. 100.

(*b*) An item of Rs. 50 representing returns inwards from Sudhir Kumar was omitted to be entered in his account.

(*c*) A sale of furniture amounting to Rs. 75 had been credited to Sales A/c.

(*d*) The credit side of Sudhir Kumar's A/c in the ledger has been overcast by Rs. 100.

(*e*) Rs. 760 paid for the purchase of Motor Cycle for one of the partners had been charged to Trade Expenses Account.

**6.** Pass Journal Entries to rectify the following errors :

(*i*) Rent for residential accommodation of Rs. 500 debited to Rent Account.

(*ii*) Charge for Rs. 200 received from K. Rao credited to P. Rao.

(*iii*) Construction of a new canteen costing Rs. 3,000 debited to Building Repairs Account.

(iv) An amount of Rs. 80 received on account of interest was credited to the Commission Account.

7. The Trial Balance of a book keeper shows an excess of debits over credits by Rs. 361. The difference is placed in a suspense account and books are closed. Later on the following errors are discovered Rectify
   (i) A credit item of Rs. 249 has been debited to a personal account as Rs. 429.
   (ii) Rs. 900 paid for furniture bought have been charged to purchase account.
   (iii) A discount allowed to a customer has been credited to him as Rs. 145 in place of Rs. 154.
   (iv) The total of Return Inward Book has been added Rs. 10 short.
   (v) A cheque for Rs. 100 for petty cash was not posted into petty Cash A/c.

   (*Delhi Senior School Certificate Exam., 1978*)

8. Rectify the following errors :
   (a) Goods of Rs. 302·56 sold to Mohan was posted to his A/c. as Rs. 32·56.
   (b) Repairs made were debited to Buildings A/c Rs. 40.
   (c) Rs. 50 withdrawn by a trader for his personal use were debited to Trade Expenses A/c.
   (d) Furniture purchased for Rs. 200 was entered in the Purchases book.

9. The following errors were made by the Book-keeper of Messrs Talwar & Co., during the year ended 31st December, 1980. How would you adjust these errors and how would they affect the annual accounts for that year ?
   (a) A Builder's Bill of Rs. 2,700 for the erection of a small shed was debited to Repairs A/c.
   (b) A cheque for Rs. 300 received from Vinod Chopra & Co. was dishonoured and debited to Allowances A/c.
   (c) On December 28th goods to the value of Rs. 100 were returned by Brown & Co. and taken into stock but were not entered in the books.

   **Note :** Net profit will be increased by Rs. 2,900.

10. Pass Journal entries and rectify the following errors :
   (a) Cash received from Rajendra Kumar Gupta Rs. 56·44 but credited in his account as Rs. 50·44.
   (b) Purchase of office stationery Rs. 20 debited to Purchases Account.
   (c) Cheque of Rs. 450 paid to Ishwar Chandra Gupta had been debited to I.C. Goel's Account.
   (d) Discount allowed Rs. 100 had been credited to Discount Allowed A/c.

(*e*) A total of the Purchases Book was carried forward as Rs. 798 instead of Rs. 789.

**11.** Give the correcting journal entries in respect of the undermentioned transactions :

(*i*) Repairs to Motor Car Rs. 350 were debited to the Motor Car Account.

(*ii*) Purchases Day Book was undercast by Rs. 1,000. Although the creditor's accounts were rightly posted.

(*iii*) Cash discount of Rs. 25 allowed to a debtor was not credited to the Debtor's Account.

(*iv*) Rs. 250 received from S.K. Mehta were credited to S.K. Gupta's Account.

**12.** The following errors were discovered in the books of S. Gulab Chand :

(*i*) Rs. 300 paid in cash for a typewriter was charged to office Expenses.

(*ii*) Material from store (Rs. 650) and Wages (Rs. 140) has been paid in making furniture for use in the office, but no entries have been made in the books.

(*iii*) Goods worth Rs. 200 purchased from J. Banerji on 23rd December had been entered in the Purchases Book and credited to him but were not delivered until 5th January.

(*iv*) Goods bought from a suppllier amounting to Rs. 130 had been posted to the credit of his account as Rs. 310.

(*v*) A cash sale of Rs. 80 to K. Dalal, correctly entered in the Cash Book. was posted to the debit of K. Dalal's Account in the ledger.

(*vi*) An item of wages paid Rs. 60, correctly entered in the Cash Book posted as Rs. 80 in the Ledger Account.

State the adjusting entries which are necessary to the above errors.

**13.** Set out the Journal Entries necessary to deal with the following matters :

(*a*) The writing off as Bad Debts of Rs. 550 due from *A*,e Rs. 190 from *B* and Rs. 28 due from *C*.

(*b*) The cost of Typewriter Rs. 800 was debited to Offic Expenses.

(*c*) The bringing into account of 3 months' interest accrued on a loan of Rs. 500 @ 5% per annum due from *X*.

(*d*) The loss arising on a sale for Rs. 370 of a machine, the book value of which is Rs. 550.

(*e*) Bad Debts recovered Rs. 550.

(*f*) Excess Depreciation of Rs. 500 provided on Plant and Machinery.

**14.** Show how you will rectify the following errors :—

(*a*) A credit sales of Rs. 450 to Ram was debited to Raman.

(*b*) A purchase of goods for Rs. 750 from Sen was debited to his Account.

(*c*) An office almirah purchased for Rs. 750 was debited to Repairs Account.

(*d*) A sum of Rs. 350 received from a debtor was debited to his account.

(*e*) Purchase of goods for the consumption of the proprietor was debited to Purchases Account Rs. 1,000.

(*f*) Discount allowed Rs. 75 was credited to Discount Receivable Account.

**15.** The trial balance as on 31-12-1980 of Saraswati Private Ltd. showed a difference and on scrutiny, the following discrepancies were observed.

(*i*) The sales day book was overcast by Rs. 3,000.

(*ii*) A sum of Rs. 1,000 received from *A* was wrongly credited to the account of *B*.

(*iii*) A creditor's balance was extracted as Rs. 1,345 instead of Rs. 345.

(*iv*) A sale bill for Rs. 9,180 was wrongly debited to the customer's account as Rs. 9,810.

(*v*) The purchases day book was undercast by Rs. 1,000.

(*vi*) An invoice for Rs. 2,000 for purchase of typewriter was debited to purchases account.

Pass Journal entries to rectify the above discrepancies, at the same time, pointing out whether the discrepancies affected the trial balance or not.

Ans. Difference in trial balance Rs. 4,370 (excess credit)

**16.** Rectify the following errors :

(*i*) Purchased goods from Ram Rs. 300 passed through Sales Book.

(*ii*) Received one bill from Mahesh Rs. 500 passed through Bills Payable Book.

(*iii*) Received final dividend of Rs. 20 from Ajit, whose account had already been written off as bad debt was credited to a newly opened account and was included in the account of creditors

(*iv*) Rs. 500 paid to Shyam Brothers against our acceptance were debited to Malhotra Brothers Account.

**17.** Pass Journal entries with narrations to rectify the following errors :—

(*i*) An amount of Rs. 200 withdrawn by the Proprietor for his personal use has been debited to Trade Expenses Account.

(*ii*) A purchase of goods from Triloki Nath amounting to Rs. 300 has been wrongly entered through the Sales Book.

(*iii*) A credit sale of Rs. 100 to Jai Prakash has been wrongly passed through the purchases Book.

(*iv*) Rs. 50 received from Shanti Prakash & Brothers have been credited to Shanti Sharma & Brothers.

(*v*) Rs. 175 Paid on account of salary to cashier Kailash Nath stand debited to his Personal Account.

(*vi*) A Contractor's bill for extension of premises amounting to Rs. 2,750 has been debited to Buildings Repairs Account.

(*vii*) An amount of Rs. 80 received on account of interest was credited to the Commission Account.

**18.** Rectify the following Errors :

(*i*) The Discount A/c was credited by Rs. 175 of the amount representing the total amount of the discount column on the debit side of the Cash Book.

(*ii*) The Sales Day Book was undercast by Rs. 1,100.

(*iii*) The sale proceeds of the old furniture amounting to Rs. 1,500 was credited to the sales A/c.

(*iv*) Bills receivable for Rs. 350 was posted as Rs. 503 to the credit of the acceptor's A/c.

(*v*) Repairs to Motor Car Rs. 750 was debited to Motor Car A/c.

**19.** Show how you would correct the following errors giving Journal entries with due narrations as are necessary :

(*a*) An amount of Rs. 105·15 for a credit sale to C.B. Gupta although correctly entered in the sales book, has been posted as Rs. 115·05.

(*b*) A credit purchase of goods amounting to Rs. 125 from M/s Vikram & Co. has not been entered in the Purchases Book but the payment made later on has been debited to the Personal account.

(*c*) Goods bought from a supplier amounting to Rs. 77 had been posted to the credit of his account as Rs. 770.

(*d*) A dishonoured Bill of Exchange receivable for Rs. 1,600 returned to the firm's Bank had been credited to the Bank Account and debited to Bills Receivable Account. A Cheque was received later from the customer of Rs. 1,600 and duly paid.

(*e*) An item of Rs. 80 entered in the Sales Returns Book had been posted to the debit of the customer who returned the goods.

(*f*) An amount of Rs. 800. owing by a customer, had been omitted from the list of Sundry Debtors.

(*g*) Bills Receivable from *W* Rs. 3,200 posted to the credit of Bills Payable Account and credited to *W*.

(*h*) A sale of Rs. 300 was made to *X* and entered correctly in the sales book, but posted to debit of *Y* as Rs. 30.

(*i*) The Return Inwards Book includes an item of Rs. 150 which has been posted to the debit of a customer.

20. A book-keeper failed to balance his trial balance, the credit side exceeding the debit side by Rs. 250. This amount was entered in a Suspense Account. Later on the undermentioned errors were discovered. Give journal entries to rectify these errors and prepare the suspense account.

(*i*) Goods amounting to Rs. 620 sold to D & Co. were correctly entered in the Sales Book, but posted to Co.'s A/c as Rs. 260.

(*ii*) Goods amounting to Rs. 75 were sold to Mohan for Cash. It was correctly recorded in the Cash Book, but was wrongly posted to Mohan also.

(*iii*) A credit balance of Rs. 755 of Rent Receivable account was shown as Rs. 570.

(*iv*) The total of Returns Outwards Book amounting to Rs. 200 was not posted to the ledger.

(*v*) Goods worth Rs. 100 were purchased from Prakash Prakashan but the amount was entered in the Sales Book. The account of Prakash Prakashan was correctly credited.

(*vi*) Sales Book was undercast by Rs. 100.

(*vii*) The total of the credit side of Sohan's account was overcast by Rs. 100.

21. The undermentioned errors could not be detected by the book-keeper of G.D. Bose, a sole trader :

(*i*) The sales day book was cast Rs. 500 short.

(*ii*) The purchase of an office almirah for Rs. 450 was passed through the purchases day book.

(*iii*) The sale of goods worth Rs. 250 to Bose was credited to his account.

(*iv*) Goods worth Rs. 350 taken by G.D. Bose were not debited to any account.

(*v*) Purchases of stationery for Rs. 50 was debited to office typewriter account.

You are required to state (*a*) what items would affect the agreement of the trial balance, and (*b*) what was the amount in the suspense account. Give correct journal entries for rectification of the errors.

Ans. Items affecting the agreement of T.B. (*i*), (*iii*) & (*iv*); debit balance of suspense A/c Rs. 350.

22. In order to close the books in time, an accountant places the difference in books to a Suspense A/c. Subsequently the following mistakes were located :—

(1) Sales Book was overcast by Rs. 100.

(2) A sale of Rs. 50 to *A* was wrongly debited to *B*.

(3) A debit of Rs. 18 to the General Expenses Account was taken as Rs. 80.

(4) A bill for Rs. 155 accepted by a customer was passed through Bills Payable book.

(5) Legal expenses Rs. 119 was debited to the personal account of the Vakeel.

(6) Rs 100 received from Mr. A. Soloman was debited to Mr. B Soloman's Account.

(7) Total of Rs. 1,235 of the purchases book was carried forward as Rs. 1,325.

Pass journal entries to rectify the errors and prepare the Suspense A/c.

**Note :** The opening balance of Suspense A/c will be the balancing figure.

**23.** In taking out the trial balance, a book-keeper finds that he is out Rs. 38·04 excess debit. Being desirous of closing his books, he places the difference to a newly opened Suspense Account which is carried forward. In the next period, he discovers that :—

(*i*) A credit item of Rs. 97·43 has been debited to a personal account as Rs. 79·34.

(*ii*) A sum of Rs. 95 written off furniture as depreciation has not been posted to the depreciation account.

(*iii*) Rs. 1,500 paid for furniture purchased has been charged to ordinary Purchases Account.

(*iv*) A discount of Rs. 37.41 allowed to a customer has been credied to him as Rs. 36·14.

(*v*) The total of the Inwards Return Book has been added Rs. 9 short.

(*vi*) An item of sale Rs. 59 was posted as Rs. 95 in the sale account.

Give journal entries to rectify these errors.

**24.** The following errors were detected in the accounts of Ram Chand for the year ended 31st December, 1979 :

(*i*) Goods purchased from Ram Lal for Rs. 1,000 were entered in the Sales Book.

(*ii*) A cheque for Rs. 300 received from Gopal was dishonoured and debited to Hari's Account.

(*iii*) Rs. 500 paid to Ram Nath for salary were debited to his personal account.

(*iv*) Goods of the value of Rs. 200 returned by Mohan were included in Stock, but no entry was made in the book.

(*v*) Sale of old furniture for Rs. 100 was entered in the Sales Book.

Give journal entries necessary to correct these errors.

**25.** Rectify the following :

(*i*) An amount of Rs. 500, withdrawn by the proprietor for his personal use, has been debited to Trade Expenses.

(*ii*) A credit purchase of goods worth Rs. 800 from Ashok has been posted through the Sales Book.

(*iii*) Rs 150 being the total discount allowed to debtors has been posted from the Cash Book to the credit of Discount Received Account.

*(S.S C. Delhi, 1980 Comptt.)*

**26.** In taking out a Trial Balance, the accountant of Gupta Bros. finds that he is out Rs. 41·60 excess debit. Being desirous of closing his book, he places the difference to a newly opened Suspense Account. Which is carried forwad. In the next period he discovers that :

(*a*) a credit item of Rs. 83·60 has been debited to a personal Account as Rs. 38·60;

(*b*) a sum of Rs. 62·60 written off on vehicle as Depreciation has not been posted to Depreciation Account;

(*c*) Rs. 1,000 paid for typewriter purchased has been charged to the ordinary Purchases Account;

(*d*) a discount of Rs. 15.30 allowed to a Customer has been credited to him as Rs. 14.30;

(*e*) the total of the Sales Returns Book has been added Rupee one short;

(*f*) an item of Sale for Rs. 68 was posted as Rs. 36 in the Sales Account.

Give the correcting entries in the form of a Journal and draw up the Suspense Account.

# 9

# Final Accounts

After having satisfied himself of the accuracy of the postings of the business transactions in the books of accounts through preparation of Trial Balance, the businessman gets interested in knowing as to whether he has *earned profits or incurred losses* and as to what is his *business position* at the end of the accounting period. For this purpose he prepares 'Final Accounts' which are called '*Financial Statements*'.

**Income Statement and Position Statement**

For knowing his *earnings* during the accounting period, he prepares an 'Income Statement' popularly known as 'Profit and Loss A/c'. For knowing his *financial position* or financial status he prepares 'Position Statement' popularly called 'Balance Sheet'. These two statements put together are called 'Financial Statments' or 'Final Accounts'.

**Income Statement or P & L A/c**

It is not only the quantum of profit, which a trader wants to know at the end of an accounting period but also the details of his income and expenses, so that he may critically analyse and study them and then develop his future plans of action for enterprise growth. That way an income statement is a summary of all the accounts that affect the profits or losses of any firm. The trial balance contains all the accounts in the ledger. From this trial balance all the *Nominal Accounts viz.* such accounts which results. either in gains or in losses and expenses, are sorted out and grouped together. Those which increase the profits are put together at one place (credit side of P & L A/c,) and those which decrease the profits at another place (debit side of P & L A/c). The balance would indicate either profit or loss. The excess of the credit side would indicate profit, whereas that of the debit side as loss. This income statement is further divided into two parts. The first is called 'Trading Account' and the second 'Profit and Loss Account'. The first will show Gross Profit or Gross Loss while the second would indicate Net Profit or Net Loss.

**Matching Revenue and Expenses**

We have said that Trading and Profit and Loss A/cs are prepared by grouping all the nominal accounts drawn from the trial balance. Broadly speaking, all the accounts pertaining to revenue and expenditure are nominal accounts *But all the expenditures and revenues do not necessarily affect the profit of the business for the accounting period.* For calculating correctly the profits for the accounting period, the principle of *matching of revenue and expenses* has to be applied. This means that all the figures of income (on the

Cr. side of P & L A/c) and of those expenses (on the Dr. side of P & L A/c) are mutually interrelated and have been adequately matched. Such expenses which lead to revenue or sale during the accounting period, have to be matched against such incomes. For example, it would be wrong to consider sales price as revenue of such goods whose cost has not yet been accounted for. Or to consider an expenditure as an expense which will bring in revenue in future. In other words, the P & L A/c should disclose revenue and expenditures, which can be properly treated as belonging to the current year. It is because of this principle that the cost of stock in hand is taken into account as also the expenses outstanding or paid in advance, before arriving at the figures of net profit. It is therefore, very essential to understand the nature of expenditure and revenue before we can select and *match the revenue and expenses* in order to arrive at the true profit of the firm. We shall now try to understand clearly the nature and types of different expenditures and receipts. Broadly speaking an expenditure can be either a '*Capital Expenditure*' or a *Revenue Expenditure*'. Likewise, a receipt can be either a '*Capital Receipt*' or a '*Revenue Receipt*'. Let us examine them thoroughly.

**Capital Expenditure and Revenue Expenditure**

Earlier in this book the difference between 'expense' and 'expenditure' has already been explained. Whereas every expense is an expenditure, each expenditure is not necessarily an expense. They are definitely not synonyms. Those business expenses which affect directly the profits for the accounting period, are called *Revenue Expenditure*. Those which do not directly affect the profit, but the benefits of which result over longer periods of life of the business (say five to ten years) are called *Capital Expenditure*. The revenue expenditure or expense is shown in P & L A/c while the capital expenditure is shown in Balance Sheet.

**Capital Expenditure.** All expenditure incurred in *acquiring* fixed assets, or *improving* the existing ones by increasing its efficiency (*e.g.* by providing substitution, alteration or renovation), or *effecting economy* in operation of existing assets (e.g. by attaching power motor to hand driven machine) are called capital expenditure. These expenditures are intended to be permanently used in business and they increase the *earning capacity* of the enterprise. They may or may not reduce the existing expenses. The following types of expenditures fall under this category:—

(*i*) An expenditure incurred on any tangible or intangible asset which ~~can be sold or~~ converted into Cash in future.

(*ii*) An expenditure incurred on improving an existing asset so as to increase its earning capacity.

(*iii*) An expenditure incurred on a new asset to bring it to workable condition.

(*iv*) Expenditure for acquiring a capital asset.

The following can be quoted as examples:—

(*i*) Payment for Goodwill.

(*ii*) Cost of Freehold Land & Building.

(*iii*) Cost of Leasehold Land.

(*iv*) Payment for acquiring Trade Mark, Patents, Copyright, Pattern & Design etc.

(*v*) Plant and Machinery and Furniture purchased for the use in business.

(*vi*) Motor Car, Truck, etc. for the use in business

(*vii*) Installation expenses of Plant & Machinery

(*viii*) Expenses of Electric Fittings

(*ix*) Addition to the value of present assets.

(*x*) Expenditure on extension of mines and gardens.

(*xi*) Acquiring an asset and spending on its erection, etc.

It must be remembered that the benefits of the capital expenditure is spread over several years. Hence only a portion of these expenditure is included in the income statement of each year. Such an expenditure when incurred is called *Capital outlay* and the portion which is earmarked for a particular accounting period is called *Depreciation*. This depreciation goes to the profit and loss A/c (and is reduced from the total capital outlay), while the rest which is called *cost residue* is transferred to balance sheet. Since capital expenditure are transferred to balance sheet they are also called *balance sheet expenditure.*

**Revenue Expenditure :** They are all such expenses which are incurred on the organisation and for running the business. The benefits of such expenses is limited to the accounting period only. They are incurred to *maintain the earning capacity* of the business, whereas capital expenditure are incurred to *improving the earning capacity* of the business. The following types of expenditures are usually called revenue expenditure.

(*i*) Expenditure incurred on acquiring raw material and business goods.

(*ii*) Such expenditure whose advantage does not last for more than a year.

(*iii*) Expenditure incurred for the maintenance of an asset.

(*iv*) Expenses to run the business efficiently—office expenses. financial expenses, selling expenses, distribution expenses etc.

The list given under can be quoted as examples:—

(*i*) Cost of Raw material.

(*ii*) Goods purchased for re-sale.

(*iii*) Wages paid.

(*iv*) Administrative Expenses—wages, salaries, insurance, rent and advertisement, etc.

(*v*) Repairs and upkeep of fixed assets.

(*vi*) Annual rent of Leasehold Land.

(*vii*) Loss due to fire.

(*viii*) Distribution expenses.

(*ix*) Selling expenses.

(*x*) Interest on Loans.

(*xi*) Depreciation, etc.

It must, however, be remembered that the examples as has been shown above are not universally accepted. These are the heads of expenditures which by and large, are classified as such. But in actual practice, whether an item of expenditure is a capital or revenue expenditure will depend on its *purpose and nature of the business concern.* It may vary at different times also. For example. expenditure on plant and machinery is a capital expenditure, but for an engineering concern it may be a revenue expenditure, if the plant is meant for resale. Similar is the case of furniture. It is generally a capital expenditure, but it may be a revenue expenditure for a dealer in furniture. Likewise some items, generally of revenue nature may have to be capitalised under certain situations. They may be considered as exceptions to the general rules. Some examples can be given as under :

**Exceptions to the General Rules**

(*i*) **Raw Materials**—When raw material is used for the manufacture of an asset it is treated as Capital expenditure.

(*ii*) **Wages and Salaries**—This is a revenue expenditure. But when wages and salaries are spent for the construction of a building or for installation of a machine then it is treated as Capital expenditure.

(*iii*) **Carriage and Freight**—These are also revenue expenditures but Carriage and Freight paid for bringing the machine to the godown, then it is treated as Capital expenditure.

(*iv*) **Repairs and Renewals**—These are revenue expenditures but when an old machine is purchased and some amount is spent to bring it to a workable condition then it is called Capital expenditure.

**Distinction between Capital Expenditure and Revenue Expenditure**

It would be better to recapitulate the distinction between these two types of expenditures :—

(*i*) Capital expenditure is the capital outlay on *acquiring* new assets, *improving* the existing ones, not with the intention of reselling them. Revenue expenditure is the routine types of recurring expenses which are incurred for running the business. Besides, they include expenses for maintaining the upkeep of the existing assets.

(*ii*) Capital expenditure *increases the earning capacity* of the business, whereas, Revenue expenses *do not.*

(*iii*) The benefits of the capital expenditure are always spread over several years, whereas the revenue expenditure provides benefit

only for the accounting period. That is the reason why only a part of the capital expenditure is accounted for in the accounting period and the balance is shown as an asset in the balance sheet. On the other hand, the entire amount of the revenue expenditure is accounted for in the accounting period. The nature of the two kinds can be better understood by the following example :

**Example**—Explain whether following are Capital expenditure or Revenue expenditure—

(*i*) Repairing charges of an old Typewriter for the office use.

(*ii*) Extension of the present lease.

(*iii*) Carriage on Machine purchased.

(*iv*) General repair of the building.

(*v*) Expenses on the issue of debentures.

**Ans.** (*i*) Capital Expenditure.

(*ii*) Capital Expenditure.

(*iii*) Capital Expenditure.

(*iv*) Revenue Expenditure.

(*v*) Capital Expenditure.

**Deferred Revenue Expenditure**

Sometimes some expenditures are incurred which by nature are revenue expenditure, but its benefits are likely to be derived over a number of years. If a revenue expenditure is incurred during the current year but paid as advance for the coming year(s), such expenditure is called '*Deferred Revenue Expenditure*'. For example a firm may undertake a special advertising campaign for a new product and say spends rupees one lakh over it. The benefit of this advertisement may continue for say ten years. As such only one-tenth of this expenditure should be considered as revenue expense for the year and taken to P & L A/c and the rest as Deferred Revenue Expenditure and taken to balance sheet as asset. Such expenses are also sometimes called *Capitalised Expenditure*. Usually the deferred revenue expenditure are of the following types :—

(*i*) *Partly paid in advance*. These are expenses, the benefits of which accrue to the current year as also to the future years. The utilised portion is accounted for the current year and the unused portion is shown as asset in the balance sheet.

(*ii*) *Wholly paid in advance*. These are expenses, the benefit of which does not accrue to the current year, but the amount is paid during this period. As such the total amount is shown as asset in the current balance sheet.

(*iii*) *Unusual and abnormal losses*. The business may get a shocking setback if the total abnormal losses are accounted for in one year. Loss by theft or fire may have to be spread over a few years. Some portion of it is accounted for in the current year and the unwritten portion is shown as an asset in the current balance sheet. Of course, this will be a worthless and fictitious asset.

**Capital Receipts and Revenue Receipts**

It is equally important to understand the distinction between capital receipts and revenue receipts. Revenue receipts, like revenue expenditures affect the P & L A/c and are shown on its credit side. Capital receipts, like capital expenditures do not affect profit, and are either shown as a liability or more often as a reduction from the assets. Any excess realisation over the book value of an asset may, however, be treated as a revenue receipt and accounted for as such. It is, therefore, essential to know the distinction. Let us have some examples :

**Examples of Capital Receipts**

(*i*) Capital invested by the owners of the business.

(*ii*) Amount received from sales of fixed assets or investments.

(*iii*) Conversion into Cash of any Asset except stock.

(*iv*) Loans received.

**Examples of Revenue Receipts**

(*i*) Amount from sale of goods.

(*ii*) Amount received from rendering services to other parties or interest received or commission received.

It would be advisable to understand at this stage the nature of capital loss and Revenue loss as well.

**Capital Loss and Revenue Loss :** Capital loss is that loss which occurs due to sale of some fixed asset For examples, loss due to issue of shares or debentures at a discount. Loss due to misappropriation of Cash from the office or forfeiture of security deposited for getting an agency. Revenue losses are those losses which occur due to sale and purchase of goods. For example, Bad Debts, loss due to fall in the price of goods, etc.

Whereas revenue loss is usually accounted for in the current year's P & L A/c, capital loss is usually spread over a few years.

## TRADING ACCOUNT

The income statement is split into two parts. The first is called the Trading Account and the second the Profit and Loss Account. The trading account is designed to show the gross profit on sale of goods. This is achieved by setting against the net proceeds of sale, the cost of goods sold. The Trading Account contains, in a summarised form, the transaction of the trader relating to the commodities in which he deals, throughout the accounting period. All expenses which relate to either purchase of raw-material or production or manufacturing are charged to the Trading A/c. It is prepared to find out Gross Profit or Gross Loss. If the Sales are more than purchases and expenses the result is Gross Profit and *vice versa*.

In the beginning of the year the businessman has stock left from the last year. It is called *Opening Stock*. The goods remaining unsold this year is called *Closing Stock*. While preparing Trading

A/c, Opening stock is added to the Purchases and Closing Stock is added to the Sales. Trading A/c shows the Gross Profit or Gross Loss. The businessman can, with the help of Trading A/c compare the Purchases, Sales and Closing Stock of the current year with those of the last years. He can easily find out the ratio of Gross profit to the Sales and thus control his business expenses.

For a small businessman, Trading Account serves the purpose of Manufacturing Account as well. But a big businessman usually has to prepare a separate manufacturing account. The description of this account will be given at the appropriate place on pages to follow.

**Importance of Preparing Trading A/c**

Preparation of Trading account serves the following objectives and provides data for comparison, analysis and planning for future growth. The purposes are :

(*i*) It provides information about gross profit. The current figure can be compared with earlier ones and reasons found for variations. Accordingly plan can be launched for future growth of the firm.

(*ii*) Ratio of gross profit to sales can help the trader to improve his business administration.

(*iii*) Ratio of direct expenses to sales will help the trader to control and rationalise the expenses.

(*iv*) Comparison of 'stock in hand' of the current year with those of the previous years. Reasons for variation can be found out and steps can be taken to adjust things more profitably.

(*v*) Ratio of cost of goods sold to total sale proceeds can help the trader in fixing the prices of his products.

(*vi*) Precautionary measures can be taken to avoid possible losses by analysing the items of direct expenses.

**Important Points about Trading A/c**

**Stock**—The goods remaining unsold is called stock. It is of two types :

1. **Opening Stock**—In the beginning of the year the businessman has some unsold goods of the last year. It is called opening stock. It is shown on the debit side of Trading A/c.

2. **Closing Stock**—The goods remaining unsold at the end of the year is called Closing Stock. It is shown on the credit side of the Trading A/c. Opening Stock is given in the Trial Balance and Closing Stock is given below the Trial Balance because closing stock is valued after the accounts have been closed.

**Valuation of Closing Stock**

Closing Stock is valued at cost price or market price whichever is less. For example, the businessman purchased goods for Rs. 2,000 but at present its market value is Rs. 2,500. It will be valued at

Rs. 2,000 and not at Rs. 2,500. Another goods costs Rs. 3,600 but now its present value is Rs. 2,600. It will be valued at Rs. 2,600. This decision is followed on the principle that a gain cannot be treated a gain unless it is actually received but a loss is treated as loss when it is clearly visible. Thus we can say expected gain is no gain but expected loss is a loss.

Closing Stock should be valued very carefully and correctly. A list of the unsold stock should be carefully prepared and its price written against every item. This work should be done by capable and experienced person and checked by some reliable officer. It should be kept in mind that if the Closing Stock is valued at a higher price the Gross Profit of the business will be wrong and misleading.

**Goods to be included in Closing Stock—**

1. Goods remaining unsold at the end of the year is called Closing Stock.

2. If there are other branches of the business, the closing stock of all the branches should be included.

3. If goods have been sent on Consignment, the stock remaining unsold with the consignee should also be included.

4. If the businessman has not taken into consideration some purchases or sales returns, these should also be included in the Closing Stock.

**Component of Closing Stock**

(1) **Stock of Raw Materials**—If the businessman is a manufacturer and he will be having some stock of raw-material at the end of year it should be included in the Closing Stock.

(2) **Stock of Finished Goods**—The part of the finished goods unsold should also be included in the Closing Stock.

(3) **Stock of Work-in-progress**—The goods which is not ready but is expected to be ready shortly is calle Work-in-progress and should also be included in the Closing Stock.

(4) **Srores**—The goods required for converting the raw-material into finished goods should also be included in the Closing Stock, *e.g.*, machine oil, chemicals, coal, gas, etc.

**Purchases and Purchases' Return**

Purchases Account tells the quantity of total goods purchased and the Purchases Returns A/c shows the goods returned out of purchases. It is shown on the Trading A/c in the following manner :

Purchases

*Less* Purchases Returns

**Direct Expenses**

These are those expenses that are included in the manufacture of goods or expenses incurred in importing goods and carrying

them to the godown. In other words we can say those expenses that are incurred in bringing the goods to saleable condition are called direct expenses. Direct expenses include the following—

(1) Wages—It is shown on the debit side of the Trading A/c and shows the wages paid in the production of goods.

**Note 1.** If wages are paid for bringing a new machine or for its installation, it is treated as part of the cost of the machine and is shown in the Assets.

**Note 2.** If the expense is recorded as 'Wages and Salaries' it would go to Trading A/c. If it is 'Salaries and Wages' it would go to P & L A/c.

(2) **Carriage Inward**—Carriage paid will be shown on the debit side of the Trading A/c. Carriage outward is shown on the debit side of Profit and Loss A/c.

**Manufacturing Expenses**

All those expenses which incurred in manufacture of goods are shown on the debit side of the Trading A/c, *e.g.*, factory, fuel and oil, factory lighting, coal and gas, etc. If lighting of the factory and office are given together then they are apportioned.

**Carriage and Freight**

Carriage and freight paid for bringing the goods purchased is a direct expense and debited to Trading A/c.

**Sales and Sales Returns**

Sales are shown on the credit side of the Trading A/c but to arrive at Net Sales the Sales returns should be deducted.

**Entries passed at the time of preparing Trading A/c**

1. **Opening Stock**—It is debited in the Trading A/c and the following Journal entry is passed :

Trading A/c Dr.

To Stock A/c (opening)

(For Opening Stock transferred to Trading A/c)

2. **Purchases A/c**—It is transferred to the debit of Trading A/c.

Trading A/c Dr.

To Purchases A/c

(For Purchases transferred to Trading A/c)

3. **Purchases Return A/c**—Following Journal entry is passed :

Purchases Return A/c Dr.

To Trading A/c.

(For purchases returns transferred to Trading A/c)

4. **Direct Expenses**—Following Journal entry is passed :

Trading A/c Dr.

To Wages A/c

,, Carriage and Cartage A/c

,, Coal, Gas & Water A/c

,, Manufacturing Expenses A/c

,, Factory Lighting A/c

(For direct expenses transferred to Trading A/c)

5. Sales—Following Journal entry is passed :

Sales A/c Dr.

To Trading A/c

(For Sales transferred to Trading A/c)

6. Sales Returns—Following Journal entry is passed :

Trading A/c Dr.

To Sales Returns A/c

(For Sales Returns transferred to Trading A/c)

7. Closing Stock—Following Journal entry is passed :

Stock A/c (Closing Stock) Dr.

To Trading A/c

(For closing stock transferred to Trading A/c)

In practice only following two entries are passed :

Trading A/c Dr.

To Stock A/c (Opening Stock)

,, Purchases A/c

,, All Direct Expenses A/c

(For transfer of balance to Trading A/c)

Sales A/c Dr.

Closing Stock A/c Dr.

To Trading A/c

(For transfer of balances to Trading A/c)

Note—Gross Profit or Loss is transferred in the following way :

| In case of Profit | | In case of Loss | |
|---|---|---|---|
| Trading A/c | Dr. | Profit and Loss A/c | Dr. |
| To Profit and Loss A/c | | To Trading A/c | |
| (For G.P. transferred to P. & L. A/c) | | (For G.L. transferred to P. & L. A/c) | |

**Form of Trading A/c**

**Trading and Profit and Loss A/c of Sunil Kumar Chaturvedi for the year/half year ending......**

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| | Rs. | | Rs. |
| To Opening Stock<br>To Purchases A/c<br>*Less* : Purchases Returns<br>*Less* : Discount on Purchases<br>To All Direct Expenses<br>,, Wages<br>,, Carriage and Cartage<br>,, Manufacturing Expenses<br>,, Coal, Water & Gas<br>,, Factory Lighting<br>,, Fuel & Power<br>,, Motive Power<br>,, Carriage & Freight<br>,, Wages & Salaries<br>,, Octroi<br>,, Factory, Rent & Rates<br>,, Duty on Imported goods<br>To P. & L. A/c c/d.<br>(Gross Profit) | | By Sales A/c<br>*Less* : Sales Returns<br>By Closing Stock<br>By P. & L. A/c c/d<br>(Gross Loss) | |
| To Trading A/c<br>(Gross Loss) | | By Trading A/c<br>(Gross Profit) | |

## PROFIT & LOSS ACCOUNT

The businessman is more interested in knowing his net income or net profit, which increases the owner's equity. If the business incurs loss the owner's equity will be decreased Net profit represents the excess of gross profit plus other revenue gains over sales expense including sales costs and other expenses which are essential to run a business. These are called *Indirect Expenses* and are not shown in Trading A/c. These revenue gains and indirect expenses (which have not yet been accounted for in the Trading A/c) are now shown in the Profit & Loss A/c. The debit side shows the expenses and the credit side the incomes. If the total of the credit side is more, it will be profit And if the debit side happens to be more, it would be net loss. According to *Prof. Carter*, "A Profit and Loss account is an account into which all gains and losses are collected in order to ascertain the excess of gains over the losses or *vice versa*". It must be remembered that expenses relating to the owner or partners are not to be accounted for in the Profit and Loss A/c of the firm. They are personal expenses and hence are transferred to the Drawings A/c of the owner or partners. These expenses are usually (*i*) Life insurance premium, (*ii*) Income-tax, and (*iii*) House-hold or personal expenses.

**The objects of preparing P. & L. A/c can be briefly summed up as under :**

(i) Provides information about Net profit ;

(ii) Comparison of current year's income with that of the previous year's can be made ;

(iii) Concrete steps may be taken to increase the net profit in future through analysis of expenses.

(iv) Proper allocation of net profit can be made among partners and provision for various types of Reserves as also for Research and Development programmes can be made.

**Preparation of Profit & Loss A/c**

All such nominal A/cs that are to be accounted for are closed by transferring them to P. & L. A/c with the help of the closing entries. The two closing entries in this regard will be as under :—

1. Profit and Loss A/c Dr.

To Travelling Expenses A/c
,, Audit Fee A/c
,, Printing Charges A/c
,, Office Establishment A/c
,, Discount Allowed A/c
,, Advertisement A/c
,, Insurance A/c
,, Carriage A/c (Outward)
,, Dock Dues A/c (Outward)
,, Salaries A/c
,, Wages A/c (Unproductive)
,, Salaries and Wages A/c
,, Depreciation A/c
,, Bad Debts A/c
,, Repairs A/c
,, Office Lighting A/c
,, Postage and Telegrams A/c
,, Interest A/c
,, Commission A/c
,, Legal Charges A/c
,, Printing & Stationery A/c
,, Trade Expenses A/c
,, Bank Charges A/c
,, Rates and Taxes A/c
,, Brokerage A/c
,, Sundry Expenses A/c

Home closing
ebit all
sses & Expenses
redit all
ncomes
gains

(For debit balances transferred to Profit and Loss A/c)

2. Commission A/c Dr.
Interest A/c ,,
Discount A/c ,,
Rent Received A/c ,,
To Profit and Loss Account
(For credit balances transferred to P. & L. A/c)

The balance of the P & L A/c, *viz*., either net profit or net loss is transferred to the capital A/c as under :

**Net Profit is transferred in the following way—**
Profit and Loss A/c Dr.
To Capital A/c
(For Net Profit transferred to Capital A/c)

**Net Loss is transferred in the following way—**
Capital A/c Dr.
To Profit and Loss A/c
(For Net Loss transferred to Capital A/c)

Normally the following accounts are transferred to Profit and Loss account. The following specimen can give an idea of the types of accounts that are usually shown on the debit and on the credit side of this account.

## FORM OF PROFIT AND LOSS ACCOUNT

| Dr. | | | Cr. |
|---|---|---|---|
| To Gross Loss b/d<br>(A) **Selling & Distribution Expenses :**<br>Advertisement<br>Traveller's Salaries Expenses & Commission<br>Salesman's Salaries Expenses & Commission<br>Bad Debts<br>Godown Rent<br>Export Expenses<br>Packing Charges<br>Carriage Outward<br>Insurance<br>Agent's Commission<br>Upkeep of Motor Lorries<br>(B) **Management Expenses :**<br>Rent, Rates & Taxes<br>Heating & Lighting<br>Office Salaries & Wages<br>Printing & Stationery<br>Postage & Telegrams<br>Telephone Charges<br>Legal Charges<br>Audit fee<br>Insurance<br>Upkeep of Motor Car<br>General Expenses<br>(C) **Depreciation & Maintenance :**<br>Depreciation<br>Repairs & Maintenance<br>(D) **Financial Expenses :**<br>Interest on Capital<br>Interest on Loans<br>Discount Allowed<br>Cost of Discounting the bills<br>(E) **Extra-Ordinary Expenses :**<br>Loss by fire (not covered by insurance)<br>Cashier defalcations<br>To Net Profit transferred to Capital A/c | | By Gross Profit b/d<br>Interest (Cr.)<br>Discount (Cr.)<br>Commission (Cr.)<br>Rent from Tenant<br>Income from Investment<br>Miscellaneous Receipts<br>Apprenticeship Premium<br>Differences in Expenses (Cr.)<br>Dividend on Shares<br>Interest on Debentures<br>Income from any other source<br>Provision for discount on creditors<br>Interest on renewal of bills<br>Net loss transferred to Capital A/c | |

## BALANCE SHEET

After ascertaining the profit or loss of the business; the businessman wants to know the financial position of his business. For this purpose he prepares a statement of Assets and Liabilities which is called Balance Sheet. It is prepared on a specified date because the figures shown in the Balance Sheet are true on that date only. The totals of the Assets and Liabilities should be equal. If it is not so it means that there is some error.

Balance Sheet is a classified summary of the balance remaining open in the Ledger, after all the income and expenditure accounts have been closed off by transfer to Profit and Loss Account. It shows readily the financial position of the business at a given date by disclosing the amount of capital contributed and how the same has been invested ; the values of assets and liabilities and their nature.

The capital and liabilities of the business are shown on the left-hand side and assets and other debit balances are shown on the right hand side. Definitions by some prominent writers are quoted here to clarify the point further :

A. Palmer has defined a Balance Sheet as follows : "The Balance Sheet is a Statement at a given date showing on one side the trader's property and on the other hand possessions and the liabilities "

According to Freeman, "A Balance Sheet is an itemised list of the assets, liabilities and proprietorship of a business of an individual at a certain date "

The Committee on Terminology of American Institute of Certified Public Accountants (AICPA) has defined the balance sheet as, "a list of balances in the assets and liability accounts. This list depicts the position of assets and liabilities of a specific business at a specific point of time".

Thus Balance Sheet is a statement prepared with a view to measure the exact financial position of a business on a certain date.

**Characteristics of Balance Sheet**

The balance sheet as distinct from other financial statements has the following characteristics:—

1. It is a statement and not an account. Although balance sheet is a part of the final accounts and prepared with the help of accounts, yet *it is not an account* but a statement.

2. It is always prepared *on a particular date*, and thus shows the position at that date and not for a period.

3. It has no debit side and credit side. Nor the words 'To' and 'By' are used before the names of the accounts shown therein. The headings are Liabilities and Assets.

4. It shows the financial position of the business concern.

5. It shows what the firm owes to others as also what others owe to the firm.

6. The totals of Liabilities and Assets always are equal.

**Objectives of preparing the Balance Sheet**

The following are the objectives of preparing a balance sheet :

1. **Principal objective:** The main purpose of preparing a balance sheet is to know the financial position of the business at a particular date.

2. **Subsidiary objectives :** Though the main aim is to know the exact financial position of the firm at a particular date, yet it serves other purposes as well.

(*i*) It gives information about the actual, *i.e.*, real owner's equity. Though the capital of the owner indicates owner's equity, yet some other liabilities are to be accounted for against it also.

(*ii*) It helps the firm to make provisions against possible future losses. A provision is made in the form of the Reserves.

A Balance Sheet is prepared from the Trial Balance. Although both resemble each other to some extent yet there are many points of difference between the two.

## Difference between Trial Balance and Balance Sheet

| Point of Difference | Trial Balance | Balance Sheet |
|---|---|---|
| (1) Object | The object of Trial Balance is to test the accuracy of ladger posting. | The object of Balance Sheet is to know the financial position of the business. |
| (2) Period | A Trial Balance is generally prepared at the end of a month. | A Balance Sheet is generally prepared at the end of trading period. |
| (3) Headings | Its headings are 'debit' and 'credit'. | Its headings are 'Liabilities' and 'Assets'. |
| (4) Knowledge of Profit and Loss | It does not show the profit or loss of the business. | It shows the profit or loss of the business. |
| (5) Closing Stock | It does not contain the Closing Stock. | It contains the Closing Stock. |
| (6) Acceptability | It is not accepted by the court. | It is accepted by the court. It helps while making payment of income-tax and sales-tax. |
| (7) Compulsory | It is not compulsory to prepare a Trial Balance. | It is compulsory to prepare a Balance Sheet at the end of the year. |
| (8) Accounts | All types of accounts are included in a Trial Balance. | Only Real and Personal accounts are included in a Balance Sheet. |

**Resemblance between Trial Balance and Balance Sheet**

There are following points of resemblance between a Trial Balance and a Balance Sheet—

(1) Both, Trial Balance and Balance Sheet, contain the Cash Book balance.

(2) Both, Trial Balance and Balance Sheet, are prepared from the Ledger.

(3) Both of these are not accounts but statements.

(4) Those accounts which do not have any balance and whose both sides are equal do not appear either in Trial Balance or Balance Sheet.

**Marshalling of Assets and Liabilities.**

1. **In order of liquidity.** According to this method, an asset which is easily convertible into Cash appears first in the

Balance Sheet. In this way the most easily realisable asset will be placed first and then will follow those assets which are less easily realisable, so that the assets most difficult of realisation will be shown last. As against this order of the assets, the liabilities will be shown in the order in which they are payable, the most pressing liability being placed first. The Balanee Sheet will then appear as under :

BALANCE SHEET OF..............

*As on...........*

| Liabilities | Amount | Assets | Amount |
|---|---|---|---|
| | | | Rs. |
| Bills Payable | — | Cash in hand | — |
| Sundry Creditors | — | Cash at Bank | — |
| Loans | — | Investments | — |
| Outstanding Expenses | — | Bills Receivable | — |
| Capital | — | Sundry Debtors | — |
| *Add* : Net Profit | — | Closing Stock | — |
| *Add* : Interest | — | Stores | — |
| *Less* : Drawings | — | Plant and Machinery | — |
| | | Freehold Premises | — |
| | | Unexpired Expenses | — |
| | | Goodwill | — |
| | — | | — |

Note—Sole Traders and partnership firms prepare their Balance Sheet in order of liquidity.

2. **In Order of Permanence**—This method is just the reverse of the previous one. The fixed and permanent assets and liabilities appear first and will be followed by floating assets and liabilities.

Its specimen will be as follows :

BALANCE SHEET OF...........

*As on........*

| Liabilities | Amount | Assets | Amount |
|---|---|---|---|
| | Rs. | | Rs. |
| Capital | — | Goodwill | — |
| *Add* : Net Profit | — | Unexpired Expenses | — |
| *Add* : Interest | — | Freehold Premises | — |
| *Less* : Drawings | — | Plant & Machinery | — |
| Outstanding Expenses | — | Closing Stock | — |
| Loans | — | Stores | — |
| Sundry Creditors | — | Sundry Debtors | — |
| Bills Payable | — | Investments | — |
| | | Cash at Bank | — |
| | | Cash in hand | — |
| | — | | — |

**Note 1.** Generally the Balance Sheet is prepared in order of liquidity. Both the sides of the Balance Sheet should be equal otherwise there is an error in it.

2. Joint stock companies prepare their Balance Sheet in order of permanence.

**Classification of Assets**

(1) **Liquid Assets**—Liquid assets are those which are represented by cash or those that can easily be converted into money, such as cash in hand, cash at Bank, Bills Receivable and Investments.

(2) **Fixed Assets**—Fixed assets are those which are acquired and intended to be retained permanently for the purpose of carrying on a business. Such assets are purchased once and last for many years such as Land & Building, Machinery, Furniture. They are also called long life Assets or Capital Assets. Sometimes the words 'Block Capital' is also used for them.

(3) **Floating Assets**--These assets are such assets as are acquired either for the purpose of resale or held temporarily in course of a business for their subsequent conversion into money, such as stock-in-trade, Book Debts, etc. The division of fixed and Floating assets is not permanent. It will depend upon the nature of business. An asset can be a fixed asset for one business and floating for another business. For example, furniture is a fixed asset for a businessman but it will be a floating asset for those who deal in furniture goods.

(4) **Wasting Assets**—Wasting assets are such assets as are consumed through being worked as mines, etc. This term is also used to denote such assets as are liable to depreciate on account of their use in the business such as copyright, leasehold land, etc.

(5) **Fictitious Assets**—Fictitious assets are such assets as are not represented by any tangible possession or property, such as preliminary expenses, prepaid expenses, etc.

(6) **Intangible Assets**—Intangible assets are those assets which we cannot see and touch, *e.g.*, goodwill.

**Capital**—Capital is the excess of a trader's assets over his liabilities. There are following kinds of capital :

(1) **Fixed Capital**—Fixed Capital of business consists of its fixed assets, such as Capital invested in Building, Machines, Furniture etc.

(2) **Working Capital**—Working capital means the capital available for the working of a business after its fixed assets have been acquired.

(3) **Floating Capital**—Floating Capital is represented by its floating assets.

(4) **Positive Capital**—That part of the capital which is used for the purchase of assets is called Positive Capital.

(5) **Negative Capital**—That part of the capital which is borrowed from outsiders is called Negative Capital.

**(6) Trading Capital**—That part of the Capital which is invested in fixed and floating capital is called Trading Capital.

**Liabilities and their classification**

The debts owing by a trader to other persons are known as liabilities. There are following types of liabilities :

**(1) Fixed Liabilities**—Such debts that are payable after a very long period are called fixed liabilities, *e.g.*, Capital.

**(2) Current Liabilities**—Such debts that are payable from time to time are called current liabilities *e.g.* Bank Overdraft, Bills Payable etc.

**(3) Contingent Liabilities**—Such debts that become payable on the happening of some specific incident are called contingent liabilities. For example, Rajinder sold goods to Harish for Rs. 2,000 on credit and Anil Gupta stands as surety for Harish. However, Harish becomes insolvent. Now Anil Gupta will have to pay Rs. 2,000 to Rajinder. This amount is a contingent liability for Anil Gupta.

Following are the examples of contingent liabilities :

1. Bills discounted before maturity.
2. Cases pending in the Court of Law.
3. Guarantees undertaken.

Contingent liabilities are shown as foot-note below the balance Sheet.

**Illustration 9-1**

From the following Trial Balance of Anil Kumar open ledger account, pass the necessary closing entries, complete Trading and Profit and Loss A/c and prepare a Balance Sheet. Closing Stock on 31st March, 1980 amounted Rs. 5,380.

| *Debit Balances* | Rs. | *Credit Balances* | Rs. |
|---|---|---|---|
| Opening Stock | 2,740·00 | Sales | 40,216·00 |
| Purchases | 28,395·00 | Purchases Returns | 115·00 |
| Sales Returns | 200·50 | Creditors | 6,200·00 |
| Carriage | 871·50 | Discount | 11·00 |
| Wages | 5,884·00 | Capital | 5,000·00 |
| Coal, Gas and Water | 4,286·00 | | |
| Manufacturing Exp. | 484·00 | | |
| Debtors | 6,790·00 | | |
| General Expenses | 489·00 | | |
| Salaries | 430·50 | | |
| Rent, Rates & Taxes | 191·00 | | |
| Cash in hand | 7·50 | | |
| Cash at Bank | 473·00 | | |
| Drawings | 300·00 | | |
| | 51,542·00 | | 51,542·00 |

**Solution**

CLOSING ENTRIES

| Date | Particulars | L.F. | Dr. Amount | Cr. Amount |
|---|---|---|---|---|
| | | | Rs. | Rs. |
| | Trading A/c Dr.<br>To Stock A/c (Opening)<br>,, Purchases A/c<br>,, Sales Returns A/c<br>,, Carriage A/c<br>,, Wages A/c<br>,, Coal, Water and Gas A/c<br>,, Manufacturing Expenses<br>(For Balances transferred to Trading A/c) | | 42,861·00 | <br>2,740·00<br>28,395·00<br>200·50<br>871·50<br>5,884·00<br>4,286·00<br>484·00 |
| | Sales A/c Dr.<br>Purchases Returns A/c ,,<br>To Trading A/c<br>(For Balances transferred to Trading A/c) | | 40,216 00<br>115·00 | <br><br>40,331·00 |
| | Stock A/c (Closing) Dr.<br>To Trading A/c<br>(For Closing stock transferred to Trading A/c) | | 5,380·00 | <br>5,380·00 |
| | Trading A/c Dr.<br>To Profit and Loss A/c<br>(For Gross Profit transferred to P. & L. A/c) | | 2,850·00 | <br>2,850·00 |
| | Profit & Loss A/c Dr.<br>To General Expenses A/c<br>,, Salaries A/c<br>,, Rent, Rates and Taxes A/c<br>(For Balances transferred to P. &. L. A/c) | | 1,110·50 | <br>489·00<br>430·50<br>191·00 |
| | Discount A/c Dr.<br>To Profit and Loss A/c<br>(For Discount transferred to P. & L. A/c) | | 11·00 | <br>11·00 |
| | Profit & Loss A/c Dr.<br>To Capital A/c<br>(For Net Profit transferred to Capital A/c) | | 1,750·50 | <br>1,750·50 |
| | Capital A/c Dr.<br>To Drawings A/c<br>(For Drawings transferred to Capital A/c) | | 300.00 | <br>300·00 |

## Ledger Accounts

*Dr.* **STOCK ACCOUNT** *Cr.*

| Date | Particulars | L.F. | Amount | Date | Particulars | L.F. | Amount |
|---|---|---|---|---|---|---|---|
| 1979 | | | Rs. | 1980 | | | Rs. |
| April 1 | To Balance c/d | | 2,740 | Mar. 31 | By Trading A/c (Trading) | | 2,740 |
| Mar. 31 (1980) | To Trading A/c | | 5,380 | Mar. 31 | By Balance c/d | | 5,380 |
| | | | 8,120 | | | | 8,120 |
| 1980 April 1 | To Balance b/d | | 5,380 | | | | |

**PURCHASES ACCOUNT**

| Date | Particulars | L.F. | Amount | Date | Particulars | L.F. | Amount |
|---|---|---|---|---|---|---|---|
| 1980 | | | Rs. | 1980 | | | Rs. |
| Mar. 31 | To Sundries | | 28,395 | Mar. 31 | By Trading A/c (transfer) | | 28,395 |

**SALES RETURNS ACCOUNT**

| Date | Particulars | L.F. | Amount | Date | Particulars | L.F. | Amount |
|---|---|---|---|---|---|---|---|
| 1980 | | | Rs. | 1980 | | | Rs. |
| Mar. 31 | To Sundries | | 200·50 | Mar. 31 | By Trading A/c (Transfer) | | 200·50 |

**CARRIAGE ACCOUNT**

| Date | Particulars | L.F. | Amount | Date | Particulars | L.F. | Amount |
|---|---|---|---|---|---|---|---|
| 1980 | | | Rs. | 1980 | | | Rs. |
| Mar. 31 | To Sundries | | 871.50 | Mar. 31 | By Trading A/c (Transfer) | | 871.50 |

**WAGES ACCOUNT**

| Date | Particulars | L.F. | Amount | Date | Particulars | L.F. | Amount |
|---|---|---|---|---|---|---|---|
| 1980 | | | Rs. | 1980 | | | Rs. |
| Mar. 31 | To Sundries | | 5,884 | Mar. 31 | By Trading A/c (Transfer) | | 5,884 |

**COAL, GAS, AND WATER ACCOUNT**

| Date | Particulars | L.F. | Amount | Date | Particulars | L.F. | Amount |
|---|---|---|---|---|---|---|---|
| 1980 | | | Rs. | 1980 | | | Rs. |
| Mar. 31 | To Sundries | | 4,286 | Mar. 31 | To Trading A/c (Transfer) | | 4,286 |

Dr. | MANUFACTURING EXPENSES ACCOUNT | Cr.

| | | | | | | |
|---|---|---|---|---|---|---|
| | | Rs. | | | | Rs. |
| 1980 Mar. 31 | To Sundries | 484 | 1980 Mar. 31 | By Trading A/c (Transfer) | | 484 |

SUNDRY DEBTORS ACCOUNT

| | | | | | | |
|---|---|---|---|---|---|---|
| | | Rs. | | | | Rs. |
| 1980 Mar. 31 | To Sundries | 6,790 | 1980 Mar. 31 | By Balance c/d | | 6,790 |
| April 1 | To Balance b/d | 6,790 | | | | |

GENERAL EXPENSES ACCOUNT

| | | | | | | |
|---|---|---|---|---|---|---|
| | | Rs. | | | | Rs. |
| 1980 Mar. 31 | To Sundries | 489 | 1980 Mar. 31 | By P. & L. A/c | | 489 |

SALARIES ACCOUNT

| | | | | | | |
|---|---|---|---|---|---|---|
| | | Rs. | | | | Rs. |
| 1980 Mar. 31 | To Sundries | 430·50 | 1980 Mar. 31 | By P. & L. A/c | | 430·50 |

RENT, RATES AND TAXES ACCOUNT

| | | | | | | |
|---|---|---|---|---|---|---|
| | | Rs. | | | | Rs. |
| 1980 Mar. 31 | To Sundries | 191 | 1980 Mar. 31 | By P. & L. A/c | | 191 |

CASH ACCOUNT

| | | | | | | |
|---|---|---|---|---|---|---|
| | | Rs. | | | | Rs. |
| 1980 Mar. 31 | To Sundries | 7.50 | 1980 Mar. 31 | By Balance c/d | | 7·50 |
| April 1 | To Balance b/d | 7·50 | | | | |

BANK ACCOUNT

| | | | | | | |
|---|---|---|---|---|---|---|
| | | Rs. | | | | Rs. |
| 1980 Mar. 31 | To Sundries | 473·00 | 1980 Mar 31 | By Balance c/d | | 473·00 |
| April 1 | To Balance b/d | 473.00 | | | | |

**Dr.** DRAWINGS ACCOUNT **Cr.**

| | | | | | |
|---|---|---|---|---|---|
| 1980 Mar. 31 | To Sundries | Rs. 300.00 | 1980 Mar. 31 | By Capital A/c (transfer) | Rs. 300·00 |

SALES ACCOUNT

| | | | | | |
|---|---|---|---|---|---|
| 1980 Mar. 31 | To Trading A/c (Transfer) | Rs. 40,216·00 | 1980 Mar. 31 | By Sundries | Rs. 40,216·00 |

PURCHASES RETURNS ACCOUNT

| | | | | | |
|---|---|---|---|---|---|
| 1980 Mar. 31 | To Trading A/c (Transfer) | Rs. 115·00 | 1980 Mar. 31 | By Sundries | Rs. 115.00 |

SUNDRY CREDITORS ACCOUNT

| | | | | | |
|---|---|---|---|---|---|
| 1980 Mar. 31 | To Balance c/d | Rs. 6,200·00 | 1980 Mar. 31 | By Sundries | Rs. 6,200·00 |

DISCOUNT ACCOUNT

| | | | | | |
|---|---|---|---|---|---|
| 1980 Mar. 31 | To P. & L. A/c (Transfer) | Rs. 11·00 | 1980 Mar. 31 | By Sundries | Rs. 11·00 |

ANIL KUMAR'S CAPITAL ACCOUNT

| | | | | | |
|---|---|---|---|---|---|
| 1980 Mar. 31 | To Drawings A/c | Rs. 300·00 | 1980 Mar. 31 | By Balance b/d | Rs. 5,000·00 |
| ,, ,, | To Balance c/d | 6,450·50 | ,, , | By Net Profit | 1,750·50 |
| | | 6,750 50 | | | 6,750·50 |
| | | | 1980 April 1 | By Balance b/d | 6,450·50 |

## TRADING & PROFIT & LOSS ACCOUNT OF SHRI ANIL KUMAR

*For the year ending 31st March, 1980*

**Dr.** | **Cr.**

| Particulars | | Amount | Particulars | | Amount |
|---|---|---|---|---|---|
| | | Rs. | | | Rs. |
| To Opening Stock | | 2,740·00 | By Sales | 40,216·00 | |
| To Purchases | 28 395 | | *Less* : Sales Returns | 200·50 | |
| *Less* : Purchases Returns | 115 | | | | 40,015·50 |
| | | 28,280·00 | By Closing Stock | | 5,380·00 |
| " Carriage | | 871·50 | | | |
| " Wages | | 5,884 00 | | | |
| " Coal, Gas and Water | | 4,286·00 | | | |
| " Manufacturing Expenses | | 484·00 | | | |
| " Gross Profit transferred to P. & L. A/c | | 2 850·00 | | | |
| | | 45,395.50 | | | 45,395·50 |
| To Salaries | | 430.50 | By Gross Profit b/d | | 2,850·00 |
| " Rent. Rates and Taxes | | 191 0C | By Discount | | 11·00 |
| " General Expenses | | 489.00 | | | |
| " Net Profit transferred to Capital A/c | | 1,750 50 | | | |
| | | 2,861.00 | | | 2,861·00 |

5.50 45 39550

## BALANCE SHEET OF SHRI ANIL KUMAR

*As on 31st March, 1980*

| Liabilities | | Amount | Assets | Amount |
|---|---|---|---|---|
| | | Rs. | | Rs. |
| Sundry Creditors | | 6,200 | Cash in hand | 7·50 |
| Capital | 5,000.00 | | Cash at Bank | 473 |
| *Add* : Net Profit | 1,750.00 | | Sundry Debtors | 6,790 |
| | | | Closing Stock | 5,380 |
| | 6,750·50 | | | |
| *Less* : Drawings | 300 00 | 6,450·50 | | |
| | | 12,650·50 | | 12,650·50 |

**Adjustments**

The trader first of all enters his transactions in the books of original entry, then prepares ledger to know his combined effect and then prepares Trial Balance to test the accuracy of the ledger posting. With the help of Trial Balance he prepares Final Accounts. To find out the net profit or loss of the business it is necessary to take all the adjustments into consideration. For example, if an expense belongs to the current year but part of it has been paid in the next year it should be recorded in the accounts of the Current Year otherwise the net profit or net loss of the current year will not be correct.

**Objects of Adjustment.** The following are the objects of making adjustments :—

(*i*) To account for all the expenses pertaining to the current years. The purpose is to adjust all such expenses that have been incurred but not paid, *viz.*, expenses outstanding and also such expenses which have been paid in advance for the coming months or year, *viz.*, prepaid expenses. The outstanding expenses are added to the expenses paid in the P. and L. A/c and shown as liabilities in the balance Sheet. The prepaid expenses are deducted from the expenses in the P. and L. A/c and shown as assets in the Balance Sheet.

(*ii*) To account for all the incomes pertaining to the current year, the purpose is to adjust all such incomes which have accrued during this year but have actually not been received or it has been received but is actually for the future period of activity.

(*iii*) Providing for depreciation and reserves to arrive at net profit, the purpose is to make provision for the wear and tear of fixed assets and reserves for unforeseen losses which might accrue. Examples are depreciation on assets, interest on capital, reserves for bad debts and other contingencies.

The following are the adjustments usually made by a trader:—

1. **Closing Stock**—Closing Stock has already been discussed in detail in the previous pages. It is recorded on the credit side of the Trading A/c and on Assets side of the Balance Sheet. It is given outside the Trial Balance.

2. **Outstanding Expenses**—These are those expenses which should have been paid before the preparation of Final Accounts but have not been paid. For example, the trader has paid only 5 months' rent instead of full one year. It means 7 months' rent is outstanding, following adjusting entry will be passed—

| | |
|---|---|
| Rent A/c | Dr. |
| To Rent Outstanding A/c | |
| (For rent outstanding for 7 months) | |

This amount will be added in Rent A/c in the Profit and Loss A/c and shown as a liability in the Balance Sheet.

BALANCE SHEET OF MERCHANT & CO.

*As on December 31st, 1979*

| Liabilities | | Amount | Assets | | Amount |
|---|---|---|---|---|---|
| | | Rs. | | | Rs. |
| Capital | 10,655.00 | | Buildings | 4,000 | |
| *Add* Net Profit | 1,892.50 | 12,547.50 | *Less* Depreciation @2% | 100 | 3,900.00 |
| Mortgage | | 3,050.00 | Machinery | 1,500 | |
| Sundry Creyitors | 2,100.00 | | *Less* Depreciation @5% | 75 | 1,425.00 |
| *Less* Reserve for discount | 52.50 | 2,047.50 | Horses and Carts | 500 00 | |
| Insurance Outstanding | | 20.00 | *Less* Dep. @ 7½% | 37.50 | 462.50 |
| | | | Closing Stock | | 6,075.00 |
| | | | Sundry Debtors | 3,250 | |
| | | | *Less* Bad debts | 150 | |
| | | | | 3,100 | |
| | | | *Less* Reserve for discount | 77 50 | 3,022.50 |
| | | | Rent and Rates Prepaid | | 30.00 |
| | | | Cash at Bank | | 2,725.00 |
| | | | Cash in hand | | 25.00 |
| | | 17,665.00 | | | 17,665.00 |

## Work Sheet and Adjusted Trial Balance

While preparing the final accounts, the expenses outstanding, prepaid expenses, deprcaiation, interest on capital etc. are to be adjusted. Adjustment entries are passed in the Journal and then posted into ledger. As a result thereof, some new accounts are opened and the balances of some of the existing accounts in the Trial Balance also get changed. A new Trial Balance is prepared with the changed balances and having the new accounts. This is called *Adjusted Trial Balance*. This work of adjusting the balances in respect of adjustment entries is done on a rough paper, which is called *work sheet*. This is done before passing the closing entries. Final accounts are then drawn up after compiling the adjusted trial balance.

## Objects and Advantages of Work sheet

The preparation o worksheet and adjusted trial balance makes the work of drawing up final accounts much easier, quicker and more accurate. It should remembered that the accounts in the adjusted trial balance should be shown only once. That reduces the possibilities of committing mistakes. Under this system, neither the work is duplicated nor there is any possibility of any account being left over. That is why, preparation of work sheet is considered to

be the best method to avoid mistakes. For one, who knows and recognises the items of the final accounts, this makes the matter much easier. The advantages of preparing a work sheet are the following ;

(*i*) It reduces the possibilities of mistakes.

(*ii*) It saves time while preparing final accounts.

(*iii*) It helps in preparation of Adjusted Trial Balance.

(*iv*) It helps in passing the closing entries.

(*v*) It is easier to prepare final accounts with its help.

The following illustration will give an idea of the method of its preparation.

**Illustration 9-11**

From the following balances and additional information you are required to prepare work-sheet and adjusted Trial Balance.

| | | | |
|---|---|---|---|
| Ram's Capital | 2,000 | Stock (1-1-80) | 400 |
| Debtors | 540 | Cash at Bank | 300 |
| Drawings | 180 | Carriage | 30 |
| Machinery | 700 | Sundry Expenses | 40 |
| Creditors | 280 | Rent | 90 |
| Wages | 1,000 | Sales | 2,900 |
| Purchase | 1,900 | | |

Adjustment—(1) Closing Stock Rs. 120 (2) Outstanding Rent Rs. 10 (3) Wages Prepaid Rs. 40; (4) Depreciation on Machinery @ 10%.,

WORK SHEET

| Items | Trial Balance | | Adjustment | | Adjusted Trial Balance | |
|---|---|---|---|---|---|---|
| | Dr Rs. | Cr Rs. | Dr. Rs. | Cr. Rs. | Dr. Rs. | Cr, Rs. |
| Capital | | 2,000 | | | | 2,000 |
| Debtors | 540 | | | | 540 | |
| Drawings | 180 | | | | 180 | |
| Machinery | 700 | | | 70 (4) | 630 | |
| Creditors | | 280 | | | | 280 |
| Wages | 1,000 | | | 40 (3) | 960 | |
| Purchases | 1,900 | | | 120 (1) | 1,780 | |
| Stock (1-1-80) | 400 | | | | 400 | |
| Cash at Bank | 300 | | | | 300 | |
| Carriage | 30 | | | | 30 | |
| Sundry Expenses | 40 | | | | 40 | |
| Rent | 90 | | 10 (2) | | 100 | |
| Sales | | 2,900 | | | | 2,900 |
| Closing Stock | | | 120 (1) | | 120 | |
| Outstanding Rent | | | | 10 (2) | | 10 |
| Wages Prepaid | | | 40 (3) | | 40 | |
| Depreciation on Machinery | | | 70 (4) | | 70 | |
| | 5,180 | 5,180 | 240 | 240 | 5,190 | 5,190 |

### Steps in Preparing the Worksheet

It will be observed from the illustration above, that there are three columns in addition to the one for items or names of the accounts. The first column is used for writing the balances of the trial balance. In the second the figures of adjustment are written out. And the third is meant for the adjusted trial balance. These three columns are divided into two parts. One for the debit balances and the other for the credit side. The procedure for preparing the work sheet is as under :

(*i*) First the names of all the accounts with its debit and credit balances are written out. It is the form of the original trial balance.

(*ii*) Journal entries are then passed for all the necessary adjustments. Debit and credit balances of these journal entries are written against the relevant accounts. It is also possible that some new accounts are to be opened because of the adjustments. The names of these accounts are also to be mentioned in the first column, and the debit or credit balance (as the case may be) is written against them. As for example, Depreciation account will be a debit balance and outstanding rent a credit balance. The entry for outstanding rent will be :

Rent A/c Dr.

To Rent outstanding A/c.

Now, Rent A/c is already available in the original trial balance. Therefore, under adjustment column, the amount will be written on debit side against rent account. There is no Rent outstanding account in the original trial balance. Thus the name of this new account will be written and the amount on the credit side against this account.

(*iii*) After writing out all the amounts of the adjustment entries, the balances of the original trial balance and those of the adjustment are brought to the column of Adjusted Trial Balance. While doing so the debit amount under adjustment is added, if the original balance happens to be a debit balance. If the balance is a credit balance, the same is deducted from it. It is put under Adjusted trial balance column. The new accounts are shown as they are.

(*iv*) While preparing final accounts, the information regarding adjustments are not cared for. The final figures of the adjusted trial balance are shown at one place in the final accounts.

## MANUFACTURING ACCOUNT

Those traders who are busy in the manufacturing. they want to know the cost of production of the goods produced. This cannot be revealed through Trading Account because (*i*) Trading Account

includes the opening and closing stock of the finished goods only, and (*ii*) it does not include expenses like repair and depreciation of machinery etc. So, it becomes necessary for the manufacturing traders that they should prepare a separate account to find out the cost of production. For this purpose a Manufacturing Account is prepared to show the actual cost of production of goods produced during a certain period.

**Main Points in Connection with Manufacturing Account**

**Items**—Following items are included in the Manufacturing Account :

(*i*) **Raw Materials Consumed**—For the purpose of this account the purchases, opening and closing stock of the raw materials are not shown separately but as follows:

| | |
|---|---|
| To Opening stock of Raw Materials | ...... |
| + Purchases of Raw Materials | ...... |
| − Purchases Returns | ...... |
| | ——— |
| —Closing Stock of Raw Materials | ...... |
| = Raw Materials consumed | ...... |
| | ——— |

(*ii*) **Direct Expenses**—Those wages and expenses that are directly spent in the process of manufacturing are included.

Prime cost = Material consumed + Direct Expenses.

(*iii*) **Factory Expenses or Factory overhead charges or Indirect Expenses of manufacture**—Following expenses in regard to factory are shown in Manufacturing A/c.

Works power, Factory Rent & Rates, Factory Lighting, Depreciation on machinery used in factory, Works internal transport, Works Manager's salary, Salaries of Factory Workers, Wages of Coolies, Proportion of cost of experiment, Factory Insurance.

Expenses of Salaries, Insurance, Depreciation etc., are shown in this account only if it is clearly indicated in the question Otherwise these will appear in the P. & L. A/c.

(*iv*) **Semi-finished goods or Work in-progress**—At the end of the year those units which are not complete and some work has been done on them are called Semi-finished goods. These are the Assets of the business and they should be valued. Proportionate cost of the goods and also proportionate expenses should be included while valuing it. For example, Rs. 40,000 were paid for wages in a year, and other direct expenses were Rs. 24,000. Thus direct expenses are 60% of the total wages paid. This percentage should be taken into consideration while valuing the semi-finished goods. If at the end of the year the material worth Rs. 10,000 has been used in the semi-finished goods and Rs. 6,000 have been paid for wages, it will be valued as under:

| | |
|---|---|
| Material | 10,000 |
| Wages | 6,000 |
| Manufacturing Exp. (60% of wages) | 3,600 |
| | 19,600 |

Opening Stock of the semi-finished goods is shown on the debit side of the Manufacturing A/c and Closing Stock on the Credit side. Closing Stock is also shown on the Assets Side on the Balance Sheet.

Opening and Closing Stocks of the finished goods are not shown in the Manufacturing A/c.

**Credit items**—Following items are shown on the credit side of the Manufacturing A/c:

(*i*) Sale of Scrap—If Scrap is sold then it is shown on the credit side.

(*ii*) Closing stock of work-in-progress.

(*iii*) Cost of Finished goods—Difference of Debit and Credit Sides of the Manufacturing A/c shows the cost of production and it is transferred to the Trading A/c.

After this cost of production per unit is calculated. It can be found out by dividing the total cost by the total number of units produced. For example, the cost of production in a factory is Rs. 20,000 and the total units produced are 4,000, The cost per unit will be 20,000÷4,000=Rs. 5.

**Difference between Trading A/c and Manufacturing A/c**—

There are following points of difference between the two—

(*i*) Trading A/c is prepared to find out the Gross Profit or Gross Loss while Manufacturing A/c is prepared to find out the cost of production of the goods produced.

(*ii*) The Balance of the Trading A/c transferred to Profit and Loss A/c while the balance of Manufacturing A/c is transferred to Trading A/c.

(*iii*) Sales of Scrap is not shown in the Trading A/c but it is shown on the credit side of Manufacturing A/c.

(*iv*) Stock of finished goods and its cost is written in the Trading A/c while in Manufacturing A/c we write the stock and purchase of raw material and semi-finished goods.

(*v*) Trading A/c is a part of Profit and Loss A/c while Manufacturing A/c is a part of Trading A/c.

**Form of Manufacturing Account**

MANUFACTURING ACCONNT
(Showing Cost of Production)

| | Rs. | | Rs. |
|---|---|---|---|
| To Stock—<br>Raw Materials<br>Partly manufactured<br>To Purchases of Raw Materials<br>To Carriage Inward on Raw Materials<br>To Direct or productive Wages<br>To Factory Insurance Coal, and Coke<br>To Lighting and Heating<br>To Motive Power<br>To Rent and Taxes<br>To Repairs to Plant &<br>To Factory Building<br>To Depreciation on Plant | | By Stock in hand<br>Raw Materials<br>Partly Manufactured Goods<br>By Cost of Production during the period transferred to Trading Account | |

## TRADING ACCOUNT

(Showing Gross Profit including Profit on Production)

| | Rs. | | Rs. |
|---|---|---|---|
| To Stock—<br>(Finished Production)<br>„ Cost of Production transferred from Manufacturing Account<br>„ Purchases of Finished Products<br>*Less :* Returns<br>To Carriage Inward thereon<br>„ Gross Profit | | By Sales<br>*Less :* Returns<br>„ Stock in hand (Closing) Finished Goods | |

**Illustration 9-12**

You are required to prepare Manufacturing and Trading Account in respect of the month of March, 1980.

| | Rs. |
|---|---|
| Stock of Raw Materials on 1st March, 1980. | 60,960 |
| „ „ on 31st March, 1980 | 74,100 |
| Purchases of Raw Materials | 52,152 |
| Work-in-Progress on 1st March, 1980 | 18,756 |
| Work-in-Progress on 31 March, 1980 | 20,652 |
| Finished Goods Stock on 1st March, 1980 | 42,936 |
| „ „ on 31st March, 1980 | 25,380 |
| Productive Wages | 41,964 |
| Unproductive Wages | 1,180 |
| Carriage Inward | 804 |
| Rent and Taxes | 1,320 |
| Lighting and Heating | 672 |
| Depreciation and Maintenance of Plant | 6,408 |
| Works Salaries | 4,692 |
| Stores Expenses | 876 |
| General Works Expenses | 16,800 |
| Sales | 1,80,000 |
| Sales Returns | 5,000 |
| Sales of Scrap | 5,000 |
| Office Rent | 200 |
| Office Salaries | 500 |
| Bad Debts | 700 |
| Distribution Expenses | 600 |

## MANUFACTURING ACCOUNT

*For the month ending 31st March, 1980*

| | | Rs. | | Rs. |
|---|---|---|---|---|
| To Work-in-Progress | | 18,756 | By Sale of Scrap | 5,000 |
| Materials Consumed | | | By Work-in-Progress (31-3-80) | 20,652 |
| Stock of Raw Materials (1-3-80) | 60,960 | | By Cost of Finished goods Transferred to Trading A/c | 1,06,832 |
| Purchases | 52,152 | | | |
| | 1,13,112 | | | |
| *Less* : Stock of Raw Materials (31-3-80) | 74,100 | 39,012 | | |
| Productive Wages | | 41,964 | | |
| Unproductive Wages | | 1,180 | | |
| Carriage Inward | | 804 | | |
| Rent and Taxes | | 1,320 | | |
| Lighting and Heating | | 672 | | |
| Depreciation & Maintenance of Plant | | 6,408 | | |
| Work Salaries | | 4,692 | | |
| Stores Expenses | | 876 | | |
| General Work Expenses | | 16,800 | | |
| | | 1,32,484 | | 1,32,484 |

## TRADING ACCOUNT

*For the month ending 31st March, 1980*

| | Rs. | | | Rs. |
|---|---|---|---|---|
| To Stock of Finished Goods | 42,936 | By Sales | 1,80,000 | |
| To Manufacturing Account (Cost of Finished Goods) | 1,06,832 | *Less* : Sales Returns | 5,000 | 1,75,000 |
| To Gross Profit | 50,612 | By Stock of Finished Goods (31-3-80) | | 25,380 |
| | 2,00,380 | | | 2,00,380 |

## PROFIT AND LOSS ACCOUNT

*For the month ending 31st March, 1980*

| | Rs. | | Rs. |
|---|---|---|---|
| To Office Rent | 200 | By Gross Profit b/d | 50,612 |
| To Office Salaries | 500 | | |
| To Bad Debts | 700 | | |
| To Distribution Expenses | 600 | | |
| To Net Profit Transferred to Capital A/c | 48,612 | | |
| | 50,612 | | 50,612 |

**Standard Questions**

1. What are Final Accounts ? Explain Trading Account, Profit and Loss Account and Balance Sheet.
2. What is a Balance Sheet ? What information does it afford ?

3. What purpose does a Balance Sheet serve ?
*(Delhi Senior School Certificate Exam., 1978 (C))*

4. What is meant by Grouping or Marshalling a Balance Sheet ? Mention the various ways in which the Balance Sheet of Business may be marshalled.

5. Define fixed, floating, fictitious, liquid and wasting assets and give two examples of each.

6. Bring out the points of resemblance and points of distinction between Trial Balance and Balance Sheet.

7. What principle should be kept in view while valuing closing stock ? Is there any exception to the general rule ?

8. How do you classify Capital and Liabilities ?

9. What are adjustments ? Why and how they are made while preparing final accounts ?

10. Write short notes on :
Contingent Liabilities, Direct Expenses, Indirect Expenses, Nominal Assets, Bad Debts Reserve, Prepaid Expenses.

11. What is a 'Work Sheet' ? Explain in detail the method of preparing work sheet.

12. What are the objects and advantages of work sheet ?

13. Distinguish between Capital Expenditure and Revenue Expenditure.
*(Delhi Senior School Certificate, Exam. 1978 (C))*

14. Distinguish between Trial Balance and Balance Sheet.
*(Delhi Senior School Certificate, Exam. 1978 (C))*

15. When assets are listed in order of their liquidity in a Balance Sheet, which should be listed first, Buildings or Cash in hand ?
*(D.H.S., 1977)*

16. What is the object of preparing Manufacturing Account ?
*(D.H.S., 1977)*

17. Distinguish between Manufacturing and Trading Account ?
*(All India, H.S. Comptt. 1976)*

18. When liabilities are listed in order of liquidity in a Balance Sheet, which should be listed first Capital or Creditors.
*(Delhi Senior School Certificate, Exam. 1978)*

19. What do you mean by Work Sheet ? What are the purposes of preparing work sheet ?
*(Delhi Senior School Certificate, Exam, 1979-80 Comptt.)*

20. What are the advantages of preparing work sheet.
*(Delhi Senior School Certificaie 1979 (C))*

**Practical**

1. (*i*) The drawings of a proprietor for the year 1979 are Rs. 15,000, Profit for the year Rs. 25,000 and capital at the end Rs. 70,000. Calculate the capital at the beginning.

   (*ii*) Cash sales of a business in a year were Rs. 29,000 and credit sales Rs. 31,000. The cost of goods sold (including direct expenses) works out at Rs. 52,000. Find out the gross profit. *(Delhi H.S. Comptt., 1974)*

2. Capital of *X* at the beginning of the year was Rs. 70,000. During the year his business earned a profit of Rs. 20,000, he withdrew Rs. 7,000 for his personal use. He sold ornaments of his wife for Rs. 20,000 and invested that amount into the business. Find out his capital at the end of the year. *(Delhi H.S. Comptt., 1976)*

3. The following information was taken from an income statement.

   Opening stock Rs. 5,000 ; Sales Rs. 16,000 ; Carriage inward Rs. 1,000 ; Sales returns Rs. 1,000.

   Gross Profit Rs. 6,000 ; Purchases Rs. 10,000 and Purchase returns Rs. 900. Calculate the Closing stock and cost of goods sold. *(All India H.S. 1977)*

4. The following information of an accounting year is given ; Opening capital Rs. 60,000, Drawings Rs. 5,000, Capital added during the year Rs. 10,000, and Closing capital Rs. 90,000. Calculate Profit or Loss for the year. *(All India H S. 1977)*

5. S. Kumar & Sons close their financial books on 31st December. Stock taking takes about two weeks. In 1979 the value of closing stock thus arrived at was Rs. 25,000. During the two weeks in which stock taking took place purchases made were Rs. 1,000 and sales totalled Rs. 4,000. The firm makes a Gross Profit of 30% on sales. Ascertain the value of closing stock on 31st December, 1979. *(Delhi H.S. 1977)*

6. The total debtors of a merchant on 31-12-79 are Rs. 60,000. This amount includes Rs. 2,000 on respect of a dishonoured bill of Mohan.

   Mohan becomes insolvent and a dividend of 50% is received from his estate. Show how will you create a provision of 5% for doubtful debts. *(Delhi Senior School Certificate Exam., 1978 (C))*

7. The annual sales of a business were as under :

| | |
|---|---|
| **Cash Sales** | **Rs. 35,000** |
| **Credit sales** | **Rs. 40,000** |

The cost of the goods sold (including all direct expenses) works out at Rs. 52,000. Expenses incurred on sales amounted to Rs. 6,700. Find out his Net profit.

(*Delhi Senior School Certificate Exam. 1978 (C)*)

8. Prepare the Trading Account of Sandip Kumar from the following particulars :—

| | | Rs. |
|---|---|---|
| Opening Stock | ... | 2,000 |
| Purchases | ... | 2,000 |
| Sales | ... | 10,000 |
| Wages | ... | 5,000 |
| Carriage | ... | 150 |
| Closing Stock | ... | 1,500 |

Ans. Gross Profit Rs. 2,350.

9. Prepare the Trading Account of Anil Kumar from the following Particulars for the year ending 31st December 1980 :—

| | | Rs. |
|---|---|---|
| Opening Stock | ... | 2,200 |
| Purchases | ... | 9,000 |
| Wages | ... | 4,500 |
| Carriage | ... | 140 |
| Sales | ... | 15,800 |
| Closing Stook | ... | 1,390 |

Ans. Gross Profit Rs. 1,350.

10. Prepare the Trading Account of Narendra Kumar from the following balances for the year ending December, 1980 :

| | | Rs. |
|---|---|---|
| Opening Stock | ... | 5,800 |
| Purchases | ... | 16,000 |
| Sales | ... | 30,000 |
| Purchases Returns | ... | 300 |
| Sales Returns | ... | 200 |
| Wages | ... | 6,500 |
| Carriage | ... | 300 |
| Closing Stock | ... | 6,000 |

Ans.. Gross Profit Rs. 7,500.

11. Prepare the Trading Account of Rajendra Kumar from the following particulars for the year ending 31st December, 1980.

| | | Rs. |
|---|---|---|
| Opening Stock | ... | 16,200 |
| Purchases | ... | 47,000 |
| Sales | ... | 65,360 |
| Power | ... | 2,240 |
| Factory Lighting | ... | 7,200 |
| Octroi | ... | 100 |
| Carriage Inwards | ... | 120 |
| Closing Stock | ... | 23,500 |

**Ans.** Gross Profit Rs. 16,000.

12. Prepare the Trading Account of Santosh Kumar from the following balances for the year ending 31st March 1979 :

| | | Rs. |
|---|---|---|
| Opening Stock | ... | 60,255 |
| Purchases | ... | 1,99,080 |
| Sales | ... | 2,81,505 |
| Returns Outwards | ... | 1,455 |
| Returns Inwards | — | 1,875 |
| Manufacturing Wages | ... | 46,875 |
| Carriage Inwards | ... | 5,175 |
| Coal, Gas and Water | ... | 100 |
| Factory Fuel & Power | ... | 305 |

Closing Stock 63,705

**Ans.** Gross Profit Rs. 33,000.

13. From the Following balances taken from the books of Ved and Co. prepare Trading and Profit and Loss Account for the year ending 31st December 19...and Balance Sheet as on that date :

| | Rs | | Rs. |
|---|---|---|---|
| Capital | 35,000 | Salaries | 1,110 |
| Buildings | 18,750 | Discount allowed | 200 |
| Machinery | 9,250 | Stock (1st Jan.) | 16,500 |
| Debtors | 7,000 | Bills Payable | 5,000 |
| General Expenses | 800 | Sales | 63,500 |
| Rent paid | 3,710 | Purchases | 46,850 |
| Proprietor's Drawings | 650 | Wages | 2,500 |
| Electric Charges | 190 | Cash in hand | 1,800 |
| Carriage inwards | 850 | Sundry Creditors | 10,000 |
| Cash at Bank | 3,000 | Returns Inwards | 440 |
| Returns outwards | 100 | | |

Closing Stock Rs. 18,210

**Ans.** Gross Profit Rs. 14,670; N.P. Rs. 8,660; Balance Sheet Rs. 58,010.

14. Prepare Trading and Profit and Loss Account of Satyendra Kumar from the following balances on 31st December 1980 :

| | | Rs. |
|---|---|---|
| Opening Stock | ... | 2,700 |
| Purchases | ... | 8,000 |
| Sales | ... | 15,000 |
| Purchases Returns | — | 150 |
| Sales Returns | ... | 100 |
| Manufacturing Wages | ... | 3,250 |
| Carriage Inwards | ... | 150 |
| Postage and Telegrams | ... | 50 |
| Miscellaneous Expenses | ... | 100 |
| Insurance | ... | 50 |
| Rent, Rates and Taxes | ... | 100 |
| Discount (Dr.) | ... | 50 |

Closing Stock 3,000

Ans. Gross Profit Rs. 3,950. Net Profit Rs. 3,600.

15. From the following balances draw up a Trading and Profit and Loss Account and Balance Sheet —

| | Rs. | | Rs. |
|---|---|---|---|
| P. Parikh's Capital | 20,000 | Purchases | 50,000 |
| Bank overdraft | 5,000 | Sales | 1,29,000 |
| Machinery | 13,400 | Returns from customers | 1,000 |
| Cash in hand | 1,000 | Returns to customers | 1,100 |
| Fixture and Fittings | 5,500 | Salaries | 9,000 |
| Opening Stock | 45,000 | Manufacturing Wages | 4,000 |
| Bills Payable | 7,000 | Commission and T.A. | 5,500 |
| Creditors | 40,000 | Trade Expenses | 1,500 |
| Debtors | 63,000 | Discount (Cr.) | 4,000 |
| Bills Receivable | 5,000 | Rent | 2,200 |

The Closing Stock amounted to Rs. 52,000.

Ans. G.P. Rs. 82,100 ; N.P. Rs. 67,900 ; and B.S. Rs. 1,39,900.

16. The following Trial Balance is extracted from the books of Vir Bakers on 31st December, 1979. You are required to prepare Trading and Profit and Loss Account for the year ended 31st December, 1979 and a Balance Sheet as on that date.

| *Dr. Balances* | Rs. | *Cr. Balances* | Rs. |
|---|---|---|---|
| Purchases | 6,425 | Sales | 11,800 |
| Opening Stock | 1,900 | Sundry Creditors | 5,085 |
| Cash in hand | 25 | Capital | 10,000 |
| Cash at Bank | 1,050 | | |
| Wages | 2,840 | | |
| Carriage | 248 | | |
| Repairs | 215 | | |
| Sundry Debtors | 7,420 | | |
| Office Expenses | 275 | | |
| Machinery | 1,050 | | |
| Discount | 90 | | |
| Salaries | 347 | | |
| Buildings | 5,000 | | |
| Total | 26,885 | Total | 26,885 |

Stock in hand on 31st December, 1979 was Rs. 2,000.

Ans. G.P. Rs. 2,387, N.P. Rs. 1,460 and B.S. 16,545.

17. From the following balances exctracted from the books of Messrs Rajendra Kumar Gupta and Co. prepare a Trading Account, a Profit and Loss Account and a Balance Sheet.

| | Rs. | | Rs. |
|---|---|---|---|
| Opening Stock | 1,250 | Plant and Machinery | 6,230 |
| Sales | 11,800 | Returns outwards | 1,380 |
| Depreciation | 667 | Cash in hand | 895 |
| Commission (Cr.) | 211 | Salaries | 750 |
| Insurance | 380 | Debtors | 1,905 |
| Carriage Inwards | 300 | Discount (Dr.) | 328 |
| Furniture | 670 | Bills Receivable | 2,730 |
| Printing Charges | 481 | Wages | 1,589 |
| Carriage Outwards | 200 | Returns Inwards | 1,659 |
| Capital | 9,228 | Bank overdraft | 4,000 |
| Creditors | 1,780 | Purchases | 8,679 |
| Bills Payable | 541 | Petty Cash in hand | 47 |
| | | Bad Debts | 180 |

The value of stock on 31st December, 1979 was Rs. 3,700.

Ans. G.P. Rs. 3,403, N.P. Rs. 628 and B.S. Rs. 16,177.

18. From the following balances of Santosh Gupta prepare Trading and Profit and Loss Account and Balance Sheet as on 31st December, 1979 :—

| | | *Dr.* Rs. | *Cr.* Rs. |
|---|---|---|---|
| Bills Payable | ... | | 700 |
| Land and Buildin[illegible] | ... | 4,000 | |
| Opening Stock | — | 4,000 | |

| | | | |
|---|---|---|---|
| Capital | | | 15,000 |
| Bills Receivable | ... | 1,500 | |
| Purchases | ... | 13,000 | |
| Sales | ... | | 22,000 |
| Wages | ... | 3,500 | |
| Salaries | ... | 570 | |
| Rent and Taxes | ... | 200 | |
| Miscellaneous Expenses | ... | 500 | |
| Carriage | ... | 800 | |
| Furniture | ... | 300 | |
| Cash in hand | ... | 230 | |
| Machinery | ... | 6,600 | |
| Discount | ... | 500 | 150 |
| Debtors | ... | 3,000 | |
| Creditors | ... | | 1,000 |
| Coal and Gas | ... | 100 | |
| Printing | ... | 50 | |
| | Total | 38,850 | 38,850 |

The stock on 31st December, 1979 was valued at Rs. 3,000.

**Ans.** G.P. Rs. 3,600 ; N.P. Rs. 1,980 and B.S. Rs. 18,680.

19. From the following balances of Seth Tent house prepare Trading and Profit and Loss Account and Balance Sheet as on 31st December 1979 :—

| | | *Dr.* Rs. | *Cr.* Rs. |
|---|---|---|---|
| Capital | ... | | 10,000 |
| Plant and Machinery | ... | 4,000 | |
| Furniture and Fixtures | ... | 200 | |
| Debtors and Creditors | ... | 2,400 | 1,700 |
| Drawings A/c | ... | 1,000 | |
| Purchases | ... | 10,500 | |
| Wages | ... | 5,000 | |
| Cash in hand | ... | 200 | |
| Cash at Bank | ... | 800 | |
| Stock on 1st January, 1979 | ... | 2,000 | |
| Returns Outwards | | | 500 |
| Rent and Taxes | ... | 400 | |
| Depreciation | ... | 420 | |
| Sales | | | 16,800 |
| Manufacturing Expenses | ... | 800 | |
| Travelling Expenses | ... | 100 | |
| Sundry Expenses | ... | 400 | |
| Bad Debts | ... | 150 | |
| Printing and Stationery | ... | 50 | |
| Carriage | ... | 130 | |

| | | |
|---|---|---|
| Returns Inwards | ... 400 | |
| Repairs | ... 50 | |
| | Total 29,000 | 29,000 |

The value of Stock on that date was 1,355.

Ans. G.L. Rs. 175, N.L. Rs. 1,745 B.S. Rs. 8,955.

20. From the following Trial Balance of Pradip Kumar & Sons prepare Trading Profit and Loss Account and Balance Sheet on 31st December, 1979 :—

| *Debit Balances* | Rs. | *Credit Balances* | Rs. |
|---|---|---|---|
| Furniture and Fittings | 7,700 | Capital | 1,05,000 |
| Bills Receivable | 10,000 | Commission | 9,000 |
| Sundry Debtors | 76,720 | Sales | 1,30,000 |
| Cash in hand | 5,250 | Returns Outwards | 2,570 |
| Interest | 3,400 | Bank Overdraft | 10,000 |
| Wages | 27,890 | Creditors | 25,320 |
| Goodwill | 25,000 | | |
| Carriage | 1,720 | | |
| Salaries | 5,000 | | |
| Insurance | 600 | | |
| Opening Stock | 38,500 | | |
| Audit Fee | 1,000 | | |
| Law Costs | 710 | | |
| Drawings | 13,200 | | |
| Purchases | 61,900 | | |
| Repairs | 3,300 | | |

Ans. G.P. Rs. 2,560 ; N.L. Rs. 2,450 ; B.S. Rs. 1,24,670.

21. From the following Trial Balance of Shri Ishwar Chand Gupta Delhi, prepare Trading and Profit and Loss Account and Balance Sheet as on 31st December :—

| *Dr. Balances* | Rs. | *Cr. Balances* | Rs. |
|---|---|---|---|
| Opening Stock | 2,000 | Capital | 4,283 |
| Purchases | 2,265 | Creditors | 240 |
| Machinery | 2,500 | Discount | 58 |
| Tools | 500 | Loan A/c | 3,800 |
| Legal Charges | 200 | Reserve A/c | 50 |
| Bills Receivable | 170 | Sales | 4,850 |
| Interest (Dr.) | 35 | | |
| Office Expenses | 50 | | |
| Travelling Expenses | 50 | | |
| Freehold Premises | 1,100 | | |
| Investments | 300 | | |
| Furniture | 200 | | |
| Debtors | 2,810 | | |
| Printing | 256 | | |
| Motive Power | 160 | | |
| Wages | 600 | | |
| Carriage Inwards | 25 | | |
| Carriage Outwards | 60 | | |

The Closing Stock on 31st December, 1979 was valued at Rs. 1,600.

Ans. G.P. Rs. 1,400 ; N.P. Rs. 807 ; B.S. Rs. 9,180.

22. From the following Trial Balance of Messrs Laxmi Narain & Sons, Prepare Trading and Profit & Loss Account for the half year ending 30th June, 1980 and Balance Sheet as on that date :—

| | | *Dr.* Rs. | *Cr.* Rs. |
|---|---|---|---|
| Capital | ... | | 2,625 |
| Opening Stock | ... | 750 | |
| Purchases | ... | 1,490 | |
| Returns Inward | ... | 40 | |
| Returns Outwards | ... | | 45 |
| Sales | ... | | 3,810 |
| Duty on Imported goods | ... | 260 | |
| Carriage on Purchases | ... | 140 | |
| Carriage on Sales | ... | 200 | |
| Office Salaries | ... | 240 | |
| Drawings | ... | 400 | |
| Rent Paid | ... | 180 | |
| General Expenses | ... | 150 | |
| Commission earned | ... | | 200 |
| Bank Balance | ... | 300 | |
| Cash | ... | 100 | |
| Bills Payable | ... | | 1,500 |
| Sundry Debtors | ... | 1,000 | |
| Sundry Creditors | ... | | 770 |
| Buildings | ... | 2,000 | |
| Machinery | ... | 1,000 | |
| Bills Receivable | ... | 250 | |
| Depreciation | ... | 200 | |
| Horses & Carts | ... | 150 | |
| Interest | ... | 90 | |
| Discount allowed | ... | 10 | |
| | Total | 8,950 | 8,950 |

Closing Stock Rs. 985.

Ans. G.P. Rs. 2,160 ; N.P. Rs. 1,290 ; B.S. Rs. 5,785.

**Final Accounts with simple Adjustments**

23. From the following T/B of Messrs Kareem Bros., prepare Trading and Profit and Loss Account and the B/S as on 31st December, 1979 :

| | | Dr. Rs. | Cr. Rs. |
|---|---|---|---|
| Capital | ... | | 9,000 |
| Drawings | — | 500 | |
| Plant & Machinery | ... | 4,500 | |
| Sundry Debtors | ... | 3,600 | |
| Sundry Creditors | — | | 1,500 |
| Purchases | ... | 9,900 | |
| Wages | ... | 4,500 | |
| Cash at Bank | ... | 1,000 | |
| Cash in hand | ... | 200 | |
| Sales | — | | 15,800 |
| Repairs | ... | 100 | |
| Stock | ... | 2,200 | |
| Rent | ... | 480 | |
| Manufacturing Expenses | ... | 720 | |
| B/P | ... | | 2,590 |
| Bad Debts | ... | 250 | |
| Carriage | ... | 140 | |
| Salaries | ... | 800 | |
| | Total | 28,890 | 28,890 |

The closing stock was valued at Rs. 1,390. Depreciation on plant and machinery 10% and interest allowed on Capital 5% per annum, Rs. 100 is due for repairs.

Ans. Gross Loss Rs. 270 ; Net Loss 2,900 : Total of B.S. Rs. 10,240.

24. From the following Trial Balance prepare a Trading and Profit and Loss Account for the year ending 31st Dec., 1979 and also draw the Balance Sheet as on the date :

| | | Dr. Rs. | Cr. Rs. |
|---|---|---|---|
| Stock | ... | 6,000 | |
| Purchases | ... | 11,250 | |
| Sales | ... | | 16,500 |

| | | | |
|---|---|---|---|
| Cash in hand | ... | 400 | |
| Cash at Bank | ... | 1,500 | |
| Buildings | ... | 10,000 | |
| Salaries | ... | 650 | |
| B.R. | ... | 400 | |
| B.P. | ... | | 500 |
| Sundry Debtors | ... | 900 | |
| Carriage and freight | ... | 250 | |
| Rent and Taxes | ... | 300 | |
| General Expenses | ... | 275 | |
| Discount | ... | | 75 |
| Insurance | ... | 150 | |
| Capital | ... | | 12,000 |
| Sundry Creditors | ... | | 3,000 |
| | Total | 32,075 | 32,075 |

Value of Stock in hand on 31st Dec., 1979 was Rs. 3,500. Provide for depreciation on Buildings at 5% and Interest on Capital at 4% per annum.

Ans. Gross Profit Rs. 2,500 ; Net Profit Rs. 220 ; Total of B.S. Rs. 16,200.

25. From the following Trial Balance of Messrs Anand and Co. Delhi, as on December 31, 1979 prepare Trading and Profit and Loss Account and a Balance Sheet :

| | | Rs. | Rs. |
|---|---|---|---|
| Capital | ... | | 36,000 |
| Creditors | ... | | 8,720 |
| B.P. | ... | | 2,527 |
| Sales | ... | | 78,182 |
| Loan | ... | | 12,000 |
| Debtors | ... | 3,885 | |
| Salaries | ... | 4,000 | |
| Discount | ... | 1,000 | |
| Postage | ... | 273 | |
| Bad Debts | ... | 287 | |
| Interest | ... | 1,295 | |
| Insurance | ... | 417 | |
| Machinery | ... | 10,000 | |
| Opening Stock | ... | 9,945 | |
| Purchases | ... | 62,092 | |

| | | | |
|---|---|---|---|
| | ... | 4,300 | |
| Wages | ... | 23,780 | |
| Buildings | ... | 16,155 | |
| Fixtures & Fittings | ... | | |
| | Total | 1,37,429 | 1,37,429 |

Charge depreciation on Machinery 5% and on Buildings 5%. Allow 5% Interest on Capital. Stock closing Rs. 14,300.

Ans. Gross Profit Rs. 16,145, Net Profit Rs. 5,384, Total of B.S. Rs. 66,431.

26. From the following Trial Balance of Thomas & Co. prepare the Trading and Profit and Loss Account for the half year ending June 30, 1980 and Balance Sheet as on that date :

| | | *Dr.* | *Cr.* |
|---|---|---|---|
| Capital Account | ... | | 4,654 |
| Thomas's Drawings | ... | 50 | |
| Stock on 1.1.1980 | ... | 1,748 | |
| Purchases | ... | 1,280 | |
| Freight on Purchases | ... | 82 | |
| Return Inwards | ... | 30 | |
| Office Salaries | ... | 168 | |
| Wages (Manufacturing) | ... | 200 | |
| Rent Paid | ... | 80 | |
| Trade Expenses | ... | 32 | |
| Rent received from rooms sublet | ... | | 30 |
| Freehold Premises | ... | 1,000 | |
| Machinery | ... | 470 | |
| Sales | ... | | 2,268 |
| Rama & Co's Account | ... | | 200 |
| Krishna & Co's Account | ... | | 88 |
| Dhawan & Co's Account | ... | 94 | |
| Discount (Balance) | ... | 24 | |
| Cash | ... | 328 | |
| Bank Fixed Deposit | ... | 1,000 | |
| Bank Current Account | ... | 654 | |

Value of stock on 30.6.1980 was Rs. 200. Provide 10% depreciation on machinery and create a Bad Debts Reserve for Rs. 50. *(Delhi Board)*

Ans. G.L. Rs. 872 ; N.L. Rs. 1,243 ; B.S. Rs. 3,649.

27. From the following figures prepare Trading and Profit & Loss Account for the year and Balance Sheet :

| Dr. | Rs. | | Cr. Rs. |
|---|---|---|---|
| Stock | 2,000 | Capital | 5,000 |
| Books Debts | 2,000 | Creditors | 1,000 |
| Plant and Machinery | 1,000 | Reserves | 1,000 |
| Wages | 500 | Sales | 15,000 |
| Salaries | 200 | | |
| Land and Buildings | 3,000 | | |
| Travelling Expenses | 250 | | |
| Purchases | 10,000 | | |
| Cash | 3,050 | | |
| | 22,000 | | 22,000 |

Stock on 31st December was Rs. 2,500. It was decided to write off 10% on Plant and Machinery and Reserve for Bad and Doubtful Debts 10% of Book Debts; to place Rs. 100 to bonus fund for staff, place Rs. 1,500 to General Reserve and to carry the balance forward.

Ans. G. P. Rs. 5,000, N. P. Rs. 2,650 and B. S. Rs. 11,250.

28. From the following balances and additional information you are required to prepare 'Work Sheet' and 'Adjusted Trial Balance' :—

| | | Rs. | Rs. |
|---|---|---|---|
| Cash | ... | 2,000 | |
| Debtors | — | 3,000 | |
| Reserve for bad debts | ... | | 100 |
| Purchases | ... | 10,500 | |
| Prepaid expenses | ... | 500 | |
| Fixed Assets | ... | 5,000 | |
| Capital | ... | | 9,900 |
| Salaries | ... | 2,000 | |
| Sales | ... | | 12,000 |
| Creditors | ... | | 1,000 |

*Adjustments*:—

(i) Closing Stock Rs. 500.

(ii) Depreciation on Fixed Assets 1%.

(iii) Rupees 100 are to be adjusted to Rent A/c out of prepaid expenses A/c.

(iv) 1% of the sales of Rs. 2,000 is to be considered doubtful.

[*Delhi Senior School Certificate Exam. 1978* (c)]

29. D. Morarji's books shows the following balances. You are asked to prepare his Trading and Profit & Loss A/c and a Balance Sheet from the following balances:—

| Dr. Balances | Rs. | Dr. Balances | Rs. |
|---|---|---|---|
| Stock on 1-1-1979 | 21,000 | Office Expenses | 650 |
| Purchases | 21,650 | Interest paid on loan | 200 |
| Carriage Inwards | 250 | Bills Receivable | 1,800 |
| Carriage Outwards | 600 | Legal Charges | 1,900 |
| Wages | 6,000 | Plant & Machinery | 25,000 |
| Motive Power, Heating, and Lighting | 1,600 | Tools | 5,000 |
| | | *Cr. Balances* | |
| Printing & Stationery | 2,660 | Sales | 48,590 |
| Sundry Debtors | 28,100 | Reserve A/c | 500 |
| Furniture & Fixtures | 2,000 | Loan A/c | 38,000 |
| Investments | 4,000 | Discount Received | 580 |
| Freehold Premises | 10,000 | Sundry Creditors | 2,430 |
| Travelling Expenses | 400 | Capital A/c | 42,710 |

Depreciation on Furniture and Fixtures 5%, Plant & Machinery 10% Tools were valued at 31st December, 1979 at Rs. 4,500, Stock on 31st December, 1979 was Rs. 18,000.

Ans. G. P. Rs. 16,090; N. P. Rs. 7,160 and B. S. Rs. 90,800.

30. From the following Trial Balance of Prem Raj Swarup Inder Raj Swarup prepare Trading and Profit and Loss Account and the Balance Sheet as on 31st December, 1979:—

| | | Dr. Rs. | Cr. Rs. |
|---|---|---|---|
| Capital | ... | | 19,000 |
| Drawings | ... | 700 | |
| Plant and Machinery | ... | 12,000 | |
| Horses and Carts | — | 2,600 | |
| Sundry Debtors | ... | 3,600 | |
| Sundry Creditors | ... | | 2,600 |
| Purchases and Sales | ... | 2,000 | 4,200 |
| Wages | | 800 | |
| Cash at Bank | ... | 2,600 | |
| Salaries | ... | 800 | |
| Repairs | ... | 190 | |
| Stock | ... | 1,600 | |
| Rent | — | 450 | |
| Manufacturing Expenses | ... | 150 | |
| B. P. | ... | | 2,350 |
| Bad Debts | ... | 500 | |
| Carriage | ... | 160 | |
| | Total | 28,150 | 28,150 |

The following adjustments are necessary:—

The Closing Stock was Rs. 1,600. Depreciate Plant and Machinery 10%. Horses and Carts 15%. Allowed Interest on Capital at 5% p.a.; Rs. 150 is due for wages. Prepaid rent amounted to Rs. 50.

Ans. Gross Profit Rs. 940 ; Net Loss Rs. 3,490, Total of B.S. Rs. 20,860

(*Delhi Senior School Certificate 1978*)

31. The Trial Balance of Messrs Chaturvedi and Sons Calcutta shows the following balances on 31st December, 19...Prepare from that Trading and Profit and Loss Account and Balance Sheet :

| | Rs. | | Rs. |
|---|---|---|---|
| Capital | 18,000 | Cash at Bank | 1,900 |
| Stock | 2,720 | Machinery | 6,710 |
| B.P. | 4,827 | Building | 5,290 |
| Creditors | 7,581 | Commission (Cr.) | 390 |
| Debtors | 8,100 | Insurance | 119 |
| B.R. | 3,291 | Postage | 132 |
| Sales | 12,439 | Discount (Cr.) | 627 |
| Purchases | 10,492 | Salaries | 1,400 |
| Returns inwards | 1,000 | Carriage | 400 |
| Returns outwards | 1,200 | Wages | 1,510 |
| Cash in hand | 1,400 | Depreciation | 600 |

The following adjustments are necessary :

(i) Closing Stock Rs. 7,929.

(ii) Allow 5% interest on capital.

(iii) Make a Reserve for Bad and Doubtful Debts at 5% on Debtors.

Ans. Gross Profit Rs. 5,446 ; Net Profit Rs. 2,907 : Total of B.S. Rs. 54,215.

32. From the following T.B. of Shri Vinod Kumar Chopra prepare Trading and Profit and Loss Account and B.S. as on 31st Dec., 1979 :

| | | *Dr.* | *Cr.* |
|---|---|---|---|
| Opening Stock | ... | 1,700 | |
| Machinery | .. | 2,000 | |
| Furniture | ... | 150 | |
| Debtors and Creditors | ... | 3,800 | 4,500 |
| Cash at Bank | ... | 1,820 | |
| Cash in hand | ... | 70 | |
| Purchases | ... | 3,000 | |
| Discount | ... | 100 | |

| | | | |
|---|---|---|---|
| Sales | ... | | 5,500 |
| Carriage | ... | 130 | |
| Insurance | ... | 80 | |
| Printing and Stationery | ... | 50 | |
| Rent and Rates | ... | 110 | |
| Salaries | ... | 830 | |
| Returns Inwards & Outwards | ... | 100 | 200 |
| B.R. | ... | 170 | |
| B.P. | ... | | 100 |
| Capital | ... | | 3,810 |
| | Total Rs. | 14,110 | 14,110 |

Make also the following adjustments :

1. Write off depreciation of Machinery and Furniture @ $6\frac{1}{4}\%$.
2. Make Provision for Bad Debts on Debtors at $2\frac{1}{2}\%$.
3. Unexpired Insurance Rs. 20.
4. Expenses outstanding Rs 50 for salaries and Rs. 25 for rent and rates, Stock in hand Rs. 2,000.

**Ans.** Gross Profit Rs. 2,770.00 ; Net Profit Rs. 1,315·62
Total of Balance Sheet Rs. 9,800·62.

33. From the following Trial Balance of Ram & Co. Bombay prepare Trading and Profit and Loss Account and Balance Sheet as on 31st December, 1979 :

| | | Rs. |
|---|---|---|
| Stock at the beginning | ... | 11,000 |
| B.R. | ... | 4,500 |
| Purchases | ... | 39,000 |
| Salaries and Wages | ... | 2,[illegible]00 |
| Insurance | ... | 700 |
| Sundry Debtors | ... | 30,000 |
| Carriage inwards | ... | 800 |
| Commission | ... | 800 |
| Interest on Capital | ... | 700 |
| Stationery | ... | 450 |
| Returns inwards | ... | 1,300 |
| Returns outwards | ... | 500 |
| Trade Expenses | ... | 200 |
| Office Fixtures | ... | 1,000 |
| Cash in hand | ... | 500 |
| Cash at Bank | ... | 4,750 |
| Rent and Taxes | ... | 1,100 |

| | | |
|---|---|---|
| Carriage outwards | ... | 1,450 |
| Sales | ... | 60,000 |
| B.P. | ... | 3,700 |
| Creditors | ... | 18,650 |
| Capital | ... | 17,900 |

The stock on the 31st December, 1979 was Rs. 25,000.

The following adjustments are necessary :

Rs. 150 are due for rent outstanding.

Rs. 350 „ „ salaries unpaid.

Write off the Office Fixtures by 5% and make a Reserve for Bad and Doubtful Debts @ 5%.

Ans. G.P. Rs. 33,400 ; N.P. Rs. 23,450 and B.S. Rs. 64,200.

**Manufacturing Account**

34. From the following particulars prepare Manufacturing Account:

| | | |
|---|---|---|
| Stock of Raw Material on 1-1-80 | 500 | |
| Work-in-Progress on 1-1-80 | 1,000 | |
| Stock of Finished Goods on 1-1-80 | 1,600 | 3,100 |
| Raw Materials purchased | | 3,000 |
| Manufacturing Expenses | | 160 |
| Factory Rent | | 140 |
| Manufacturing Wages | | 200 |
| Power | | 60 |
| Stock of Raw Materials (31-12-80) | 300 | |
| Work-in-Progress (31-12-80) | 600 | |
| Stock of Finished Goods on (31-12-80) | 1,600 | 2,500 |

Ans. Cost of Goods Manufactured Rs. 4,160.

35. From the following particulars prepare (*a*) Manufacturing Accounts, and (*b*) Trading Account.

| | | |
|---|---|---|
| Stock on 1-9-1979 | | |
| Raw Materials | 540 | |
| Work-in Progress | 860 | |
| Finished Goods | 3,000 | 4,400 |
| Purchases of Raw Materials | | 7,400 |
| Carriage | | 190 |
| Sales of Finished Goods | | 19,310 |
| Factory Wages | | 3,150 |

| | | |
|---|---|---|
| Factory Expenses | | 440 |
| Return Inwards | | 300 |
| Factory Rent | | 500 |
| Sale of Scrap (Waste Materials) | | 550 |
| Manufacturing Expenses | | 700 |
| Return Outwards | | 400 |
| Stock on 31-12-79 | | |
| Raw Materials | 1,100 | |
| Work-in-Progress | 1,400 | |
| Finished Goods | 2,800 | 5,300 |
| General Manager's Salary (4/5 to be transferred to Factory) | | 1,000 |

**Ans.** Cost of Goods produced Rs. 11,130; Gross Profit Rs. 7,680.

# 10

# Banking Transactions

It is said that the history of trade in India is as old as the history of human civilisation. It is a proof of the fact that banking was present in ancient India also in one form or the other. In India the history of banking is available from 500 B. C. Kautilya has also praised, in his book, the banking system. In ancient times the bankers were called *Mahajans, Seths, Marwaris* etc.

In olden days the business was limited to a village or a town, But now it has become national and international. This progress in business is due to many improvements, *e g.*, transport and communication, division of labour and specialisation. The most important improvement is the establishment of banking and use of credit instruments.

According to Raw in our dynamic society the bank performs so many functions that it is almost difficult to define a bank. Bank is an institution which deals in money and credit. The bank lends money which it borrows from others. It borrows at a lower rate of interest and lends at a higher rate. A bank includes a body of persons whether incorporated or not who carry on the business of banks. The Indian Banking Companies Act defines a Bank, "Accepting for the purpose of lending or investment in deposit money from public repayable on demand or otherwise withdrawal by cheque, drafts, order or otherwise."

Bank is a German word which means 'to collect'. Thus bank collects money. A most common definition of bank is, "A bank is a person or corporation which holds itself out to receive from the public deposits, repayable on demand by cheques. It is also regarded as a manufacturer of credit and a machine for facilitating all kinds of exchanges. It is a trader in money and credit."

Some people say that *bank is what bank does*. Some other definitions of the bank are given below :

1. A bank is a manufacturer of credit and machine for facilitating exchange. —*Horace White*
2. Banks are institutions whose debts referred to as 'bank deposits'- are commonly accepted in final settlement of other people's debts. —*R. S. Sayers*
3. A bank is a person or corporation which holds itself out to receive from the public deposits payable on demand by cheque. —*Walter Leaf*
4. The real business of the banker is to obtain deposits of money which he may use for his own profit by lending it out again. —*Justice Homess*

5. A 'banker' is a person or Company carrying on the business of receiving moneys, and collecting drafts for customers subject to the obligation of honouring cheques drawn upon them from time to time by the customers to the extent of the amounts available on their current accounts.

*—Dr. D.L. Hart*

**Method of Opening Account in a Bank**

A person who wants to open his account with a bank will have to first fill up an application from. This form is available from the bank without any cost. He will have to give an understanding to the bank that he has read all the rules of the bank and that he would follow them. The bank usually insists on such person being introduced by a existing customer of the bank or any other reputed businessman. This would enable the bank to open accounts only for honest and established persons. The scope of fraud is thus sought to be reduced. If the bank is satisfied with the information, it would obtain the signatures of the applicant on three different cards and would keep them in the Autograph Book for future reference.

In a partnership firm if all the partners are authorised to open, the accounts, they will have to give their specimen signatures. If only a few partners are entitled to sign the cheques, a declaration to this effect is necessary. A company will have to submit all legal papers and resolution of the directors in which the Secretary or the Director is authorised to sign the cheques. Public institutions can open account in their names and the account will be operated by the secretary or the president of the institution.

**Accounts in the Bank**

**Current Account** : Current Account is a suitable form of deposit for a businessman. It is one into which money may be deposited and out of which it may be drawn at any time Generally, bank does not allow any interest on such account but instead some charges are made half-yearly or yearly. Some banks allow interest on current account at a very low rate. Generally, the depositor has to maintain a minimum balance of Rs 100 in this account. Some banks keep this limit to Rs. 300 or Rs. 500.

When the bank accepts to open the Current account, it would issue the following three books to the Customer :

(*i*) **Pass Book**—The bank keeps an account of all the deposits and withdrawals of the customer in his account This record is copied out in a book called Pass Book. This Pass Book is a copy of customer's account in bank's book. It remains with the customer and is presented to the bank from time to time for necessary entries.

From time to time the traders prepare a Bank Reconciliation Statement to reconcile the balanecs of the Cash Book and Pass Book The two balances may show a difference because of the following reasons :

(*a*) Cheques issued but not presented for payment. (*b*) Cheques deposited but not yet realised. (*c*) Interest allowed by the Bank. (*d*) Debiting the commission and bank charges by the bank. (*e*) Collection of dividends, etc. (*f*) Payments on the direction of the customer. (*g*) Dishonour of cheques or bills.

A specimen of Pass Book is given as follows :

**UNITED COMMERCIAL BANK**

Account No.........

| Date | | Particulars | Cheque No. | Withdrawals | | Deposits | | Balances | | Officer's Initials |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Rs. | P. | Rs. | P. | Rs. | P. | |
| | | Carried over | | | | | | | | |

(*ii*) **Cheque Book**—The bank gives a cheque book to the customer who opens a current account. It contains blank cheque forms ranging from 10 to 100. The amount can be withdrawn from the bank through these cheques. The trader can issue cheques to any person when he wants to make payment. He can get another cheque book by filling up a requisition form given in the old cheque book.

(*iii*) **Pay-in-slip Book**—It is used for depositing Cash or Cheques in the bank. Full details of the amount should be given in this slip *e.g.*, notes, coins. change etc. This slip is divided into two parts. One parts remains with the bank and the other with the customer. It is signed by an authorised officer of the bank.

Some banks use separate slips for cash and cheques.

2. **Savings Bank Account :** This type of account is primarily meant for middle class salaried persons who want to save some money for furture. The person who wants to open this account has to make a declaration that he has read all the rules and regulations of this account and that he would follow them. He has to give his specimen signatures to the bank. Following points are worth noting about this account :

(*a*) **Opening of Account**—Any major person can open this account. Two persons also can jointly open this account. A guardian can open this account in the name of a minor.

(*b*) **Minimum amount**—Generally a minimum amount of Rs. 5 is required to open this account. But some banks insist on a minimum of Rs. 25.

(*c*) Generally bank allows an interest of 5% per annum on this account. The banks do not allow interest on an amount of more than Rs. 50,000 without prior arrangement.

(*d*) The amount can be withdrawn by filling up a Withdrawal Form. Some banks have started issuing cheque book also in this account.

3. **Fixed Deposit Account :** This account is good for earning maximum rate of interest. Those who have plenty of money and those who cannot invest it for some productive purpose can deposit

it in this account. Money is deposited in this account for a fixed period and cannot be withdrawn before the expiry of that period. The Fixed Deposit Receipt can be issued in the name of one or more persons. The amount will be payable to the last survivor. This receipt is not transferable. It cannot be endorsed.

4. **Cumulative Deposit Account** : This is a new type of account in which money can be deposited in denominations of Rs. 5, 10, 20, or 40 every month. After a fixed period the amount is paid back together with interest. This is a good methed of saving for those who have small incomes.

**Cheque**

According to Indian Negotiable Instruments Act, a cheque can be defined as follows :

"A cheque is an unconditional order in writing drawn by a customer on his bank, requesting the specified bank to pay on demand a certain sum of money to a person named in the cheque or to the bearer or to the order of a stated person."

**Characteristics of a Cheque**—On the basis of the above definition following characteristics of a cheque can be given :

(1) It is an order in writing to pay money.

(2) It is written on a specified bank in which the trader has his account.

(3) It is an unconditional order.

(4) It should be signed by the drawer.

(5) It is payable to the specified person, or the person ordered in it or to the bearer.

(6) the customer can order the bank to pay a certain sum only.

(7) It is payable on demand.

Following points must be noted while writing a cheque—

1. **Date**—First of all the date is written on the left hand side of the cheque. If the amount is payable on some future date that date should be written. Such a cheque is called Post-dated cheque. Sometimes a cheque is back-dated also. But if the date is older than 6 months it is called a Stale Cheque. The bank refuses to make payment of such a cheque. If a cheque is not dated at all the bank can write the date. But generally the bank refuses to make payments of these cheques.

2 **Amount**—Amount must be written both in figures and words. It must be very carefully written because if there is a slight difference in words and figures the bank will refuse to make Payment.

3. **Payee's Name**—The person who is entitled to receive the payment is called Payee. Drawer himself can also be the payee. If the amount is payable to some other person, his name should be written and if the amount is payable to the drawer himself the word 'Self' must be written.

4. **Drawer's Signature**—The cheque should be very carefully signed by the drawer. The signature must correspond to the one given earlier as specimen signature.

5. **Counterfoil**—Counterfoil remains with the drawer for future reference.

**Precautions while Writing a Cheque**—The language of a cheque is very simple and brief because the writer has simply to order the bank to pay a certain sum of money. However, following precautions are necessary :—

(1) A cheque must not be written with pencil. It should be written in ink.

(2) It must be clearly dated. A future date can also be written.

(3) The name of the payee must be clearly written. It must be signed by the drawer in the same manner as given in specimen signatures.

(4) The amount written in words and figures must tally. The amount in words should end with the word 'only'

(5) If there is any alteration in the cheque, it must be signed by the drawer.

(6) If an order cheque is to be sent outside it must be sent through registered post. A crossed cheque may, however, be sent through ordinary post.

(7) If the drawer wants to withdraw money for himself he must use the world 'Self' instead of the name of the payee.

(8) The counterfoil of the cheque must be filled up and preserved for future reference.

**Crossing of a Cheque**

Meaning of Crossing—A bearer cheque can be encashed by any body but the amount of an order cheque is paid to the person whose name is written in the cheque or to whom it has been endorsed. As a safeguard against theft or misappropriation a cheque can be crossed. Two parallel lines can be drawn on the face of the cheque with or without some words in-between them. It is called crossing. Such cheques cannot be paid on the counter of the bank but it can be paid through some bank only, *i.e.* it can be deposited in the payee's acccount only. Thus crossing makes a cheque safe.

**Kinds of Crossing**—There are following types of crossings :

1. **General Crossing**—When two parallel lines are drawn on the face of the cheque without some words or with some words it is called general crossing. The words written may be '& Co', 'A/c Payee only', 'Under Rs... ', Not Negotiable', etc.

2. **Special Crossing**—When the name of some bank is also written in between the two lines it is called Special Crossing. In such a case the cheque can be deposited in that bank only whose name is written. This is the safest form of a cheque.

**Common Words Used in Crossing**

1. **& Co.**—These words are used as a matter of convention only. These words have no specific meaning.

2. **A/c Payee Only**—It means that the cheque cannot be endorsed further and that it can be deposited in the account of the payee only. These words make the cheque more safe.

3. **Under Rs.**—These are also words with old convention. It means that the amount of cheque is less than what is written in the parallel lines.

4. **Not Negotiable**—These words indicate a warning that the cheques should be accepted from a person of full confidence.

**Journal Entries Regarding Banking Transactions**

1. For depositing money in the bank—

   Bank A/c Dr.

   To Cash A/c

   (For cash, cheque or draft deposited)

2. For withdrawing cash from bank for office—

   Cash A/c Dr.

   To Bank A/c

   (For Cash withdrawn for office use)

3. For withdrawing cash from bank for private use—

   Drawings A/c Dr.

   To Bank A/c

   (For cash withdrawn for private use)

4. For making payment through cheque for goods purchased—

   Purchases A/c Dr.

   To Bank A/c

   (For goods purchased and payment made by cheque)

5. For making payment to a creditor—

   Creditor's Personal A/c Dr.

   To Bank A/c

   (For payment made to—by cheque)

6. For depositing the cheque or draft into Bank on the same day received in settlement—

   Bank A/c Dr.

   To Debtor's Personal A/c

   (For cheque or draft received and deposited the same day into bank)

7. For payment of expenses by bank—

   Expenses A/c Dr.

   To Bank A/c

   (For payment of expenses made by cheque)

8. For Bank charges—
   Bank Charges A/c Dr.
   To Bank A/c
   (For Bank charges debited by the Bank)
9. For dishonour of cheque—
   Drawer's Personal A/c D
   To Bank A/c
   (For cheque dishonoured)
10. For sending draft and charging the same from the account—
    Payee's Personal A/c Dr.
    Bank Charges A/c ,,
    To Bank A/c
    (For Bank draft issued and Bank charge debited by the Bank)
11. For depositing directly into Bank by a customer—
    Bank A/c Dr.
    To Debtor's Personal A/c
    (For Cash deposited by him direct into Bank)
12. For allowing interest on deposits—
    Bank A/c Dr.
    To Interest A/c
    (For interest allowed by Bank)

**Illustration 10-1**

Journalise the following transactions and prepare the Bank Account :

1981

Jan. 1 Opened a Current Account in Delhi Bank by depositing Rs. 4,500.

2 Gave a cheque of Rs. 200 to Ram Kumar.

5 Transferred Rs. 1,000 to Fixed Deposit Account.

8 Purchased furniture by cheque Rs. 200.

10 Took a Loan of Rs. 1,500 from Bank which was transferred to Current Account.

11 Bank charges Rs. 3.

12 Withdrew for office use Rs. 100.

15 Deposited in Bank Rs, 300.

15 Interest on Bank loan Rs. 5.

**Solution**

JOURNAL

| Date | Particulars | | L.F. | Dr. Amount | Cr. Amount |
|---|---|---|---|---|---|
| 1981 | | | | Rs. | Rs. |
| Jan. 1 | Bank A/c<br>To Cash A/c<br>(Cash Deposited in Current A/c) | Dr. | | 4,500 | 4,500 |
| „ 2 | Ram Kumar<br>To Bank A/c<br>(Paid Ram Kumar by Cheque) | Dr. | | 200 | 200 |
| „ 5 | Fixed Deposit A/c<br>To Bank A/c<br>(Transferred Money from Current A/c to Fixed Deposit Account) | Dr. | | 1,000 | 1,000 |
| „ 8 | Furniture A/c<br>To Bank A/c<br>(Purchased Furniture by Cheque) | Dr. | | 200 | 200 |
| „ 10 | Bank A/c<br>To Bank Loan A/c<br>(Took a Loan from Bank and transferred to Current A/c) | Dr. | | 1,500 | 1,500 |
| „ 11 | Bank Charges A/c<br>To Bank A/c<br>(For Bank Charges charged by the Bank) | Dr. | | 3 | 3 |
| „ 12 | Cash A/c<br>To Bank A/c<br>(Withdrew for Office use) | Dr. | | 100 | 100 |
| „ 15 | Bank A/c<br>To Cash A/c<br>(Depoisted into Bank) | Dr. | | 300 | 300 |
| „ 15 | Interest A/c<br>To Bank A/c<br>(Inte est on Bank Loan) | Dr. | | 5 | 5 |
| | Total Rs. | | | 7,808 | 7,808 |

BANK ACCOUNT (CURRENT A/C)

| Date | Particulars | Folio | Amount Rs. | P. | Date | Particulars | Folio | Amount Rs. | P. |
|---|---|---|---|---|---|---|---|---|---|
| 1978 Jan. 1 | To Cash A/c | | 4,500 | — | 1981 Jan. 2 | By Ram Kumar | | 200 | — |
| ,, 10 | ,, Bank Loan A/c | | 1,500 | — | ,, 5 | By Fixed Deposit A/c | | 1,000 | — |
| ,, 15 | ,, Cash A/c | | 300 | — | ,, 8 | By Fur. A/c | | 200 | — |
| | | | | | ,, 11 | By Bank Charges | | 3 | — |
| | | | | | ,, 12 | By Cash | | 100 | — |
| | | | | | ,, 15 | By Interest | | 5 | — |
| | | | | | ,, 31 | By Bal. c/d | | 4,792 | — |
| | | | 6,300 | — | | | | 6,300 | — |
| Feb. 1 | To Bal. b/d | | 4,792 | — | | | | | |

**Three Column Cash Book**

In modern times bank renders a great service to the businessmen. Its primary function is to deal in money and credit. The businessman deposits his money into bank and makes most of the payments through bank. Payment through bank is very safe. The businessman prepares a bank column in his Cash Book apart from cash and discount column. Thus this Cash Book is called Three Column Cash Book. Cash withdrawn from the bank and cash deposited into Bank is written in the bank column of the Three Column Cash book. Generally, withdrawals are less than deposits. But sometimes the businessman can overdraw also if there is prior arrangement with bank It is called overdraft. In such a case the total of the credit side of the Bank column of the Cash book will be more than that of the debit side. So on the debit side we shall write "To Balance c/d".

**Important Points Regarding Three Column Cash Book**

Following points should be kept in mind while preparing a Three Column Cash Book—

1. Cash **paid into Bank**—When the trader pays cash into bank it affects the Cash A/c as well as Bank A/c. Therefore, entries are passed on the debit side as well as on credit side. On the debit side we write 'To Cash' in the particulars column and the amount is written in the Bank column. On the credit side we write 'By Bank' in the 'Particulars column' and the amount is written in the 'Cash column'. This transaction reduces the cash balance and increases the bank balance.

2. **Cash Withdrawn from Bank**—When the cash is withdrawn from the bank it reduces the bank balance and increases the cash balance of the office. On the Dr. side of the Cash Book we write 'To Bank'. The amount goes to the 'Cash column'. On the Cr. side of the Cash Book we write 'By Cash'. The amount goes to the 'Bank column'.

**Note**—Some authors use the letter 'Office' instead of 'Cash'. Such entries as appear on both Dr. and Cr. sides are called contra entries and are indicated by the word 'C'.

3. **Receipt of Cheque**—Cheques received as recorded like cash received in the cash column of the Cash Book if not immediately deposited into bank. When the cheques are paid into bank same entry as for depositing cash is made.

4. **Payment by Cheque**—Payments by cheque are entered on the credit side of the Cash Book. The amount is written in the 'Bank column'.

5. **Dishonoured Cheques**—When a cheque is dishonoured it is entered on the Cr. side of the Cash Book and the amount goes to the 'Bank column'. For example, cheque received from Satish Kumar for Rs. 1,000 was dishonoured. It will be entered as 'By Satish Kumar' with amount in the 'Bank column'.

6. **Bank Charges**—The Bank charges some amount for the services rendered to his customers. This will be recorded as 'By Bank Charges' on the credit side with amount in the 'Bank column'.

**Contra Entries**

In Three Column Cash Book there are some transactions which affect the cash-balance add the bank-balance. These transactions are recorded both on the Dr. and Cr. sides. For example, cash withdrawing from bank for office use or depositing cash into bank. These transactions will be entered once on the Dr. side and secondly on the Cr. side. Such entries are not posted in the Ledger. These are indicated by the word 'C' and are called Contra Entries.

**Rulings of Three Column Cash Book**

*Receipts* THREE COLUMN CASH BOOK *Payments*

| Date | Particulars | L.F. | Dis-count | Cash | Bank | Date | Particulars | L.F. | Dis-count | Cash | Bank |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | |

**Illustration 10-2**

Write out the following transaction in Cash Book with Discount, Cash and Bank columns :

**1981**

1. **Jan.** 1. **Chandika commences business with Rs. 20,000 in cash.**
2. ,, 3. **He pays Rs. 19,000 into Bank current account.**
3. ,, 4. **He received cheque for Rs. 600 from Kirti & Co. on account.**

| | | |
|---|---|---|
| 4. | ,, 7 | He pays into bank Kirti & Co.'s cheque for Rs. 600. |
| 5. | ,, 10 | He pays Rattan & Co. by cheque Rs. 330 and is allowed discount Rs. 20. |
| 6. | ,, 12 | Tripathi & Co. pays into his Bank Account Rs. 475. |
| 7. | ,, 15 | He receives cheque for Rs. 450 from Warsi and allowed him discount Rs. 35. |
| 8. | ,, 20 | He receives cash Rs. 75 and cheque for Rs. 100 for cash sales. |
| 9. | ,, 25 | He pays into Bank Rs. 1,000. |
| 10. | ,, 27 | He pays by cheque for cash purchases Rs. 275. |
| 11. | ,, 30 | He pays sundry expenses in cash Rs. 50. |
| 12. | ,, 30 | He pays John & Co. Rs. 375 in cash and is allowed discount Rs. 35. |
| 13. | ,, 31 | He pays office rent by cheque Rs. 200. |
| 14. | ,, 31 | He pays staff salaries by cheque Rs. 300. |
| 15. | ,, 31 | He draws a cheque for private use Rs. 250. |
| 16. | ,, 31 | He drew a cheque for office use for Rs. 400. |
| 17. | ,, 31 | He pays cash for stationery Rs. 25. |
| 18. | ,, 31 | He purchased goods for cash Rs. 125. |
| 19. | ,, 31 | He pays Jaspal by cheque for commission Rs. 300. |
| 20. | ,, 31 | He gives cheque to Ram Saran for cash purchases of furniture for office Rs. 1,575. |
| 21. | ,, 31 | He receives cheque for commission Rs. 500 from Raghubir & Co.; and pays the same into Bank. |
| 22. | ,, 31 | He receives cheque from Kesri & Co. for Rs. 450. |

**Solution**

*Receipts* CASH BOOK WITH DISCOUNT, CASH AND BANK COLUMN *Payments*

| Date | Particulars | L.F. | Discount | Cash | Bank | Date | Particulars | L.F. | Discount | Cash | Bank |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Rs. | Rs. | Rs. | | | | Rs. | Rs. | Rs. |
| 1981 Jan. 1 | To Capital A/c | | | 20,000 | | 1981 Jan. 3 | By Bank A/c | (C) | | 19,000 | |
| ,, 3 | To Cash A/c | (C) | | | 19,000 | ,, 7 | By Bank A/c | (C) | | 600 | |
| | | | | | | ,, 10 | By Rattan & Co. | | 20 | | 330 |
| ,, 4 | To Kirti & Co. | | | 600 | | ,, 25 | By Bank A/c | (C) | | 1,000 | |
| ,, 7 | To Cash A/c | (C) | | | 600 | ,, 27 | By Goods A/c | | | | 275 |
| ,, 12 | To Tripathi & Co. | | | | 475 | ,, 30 | By Sundry expenses | | | 50 | |
| | | | | | | ,, 30 | By John & Co. | | 35 | 375 | |
| ,, 15 | To Warsi | | 35 | 450 | | ,, 31 | By Rent A/c | | | | 200 |
| ,, 20 | To Goods A/c | | | 175 | | ,, 31 | By Salries A/c | | | | 300 |
| ,, 25 | To Cash A/c | (C) | | | 1,000 | ,, 31 | By Drawings A/c | | | | 250 |
| ,, 31 | To Bank A/c | (C) | | 400 | | ,, 31 | By Cash A/c | (C) | | | 400 |
| ,, 31 | To Commission A/C | | | | 500 | ,, 31 | By Stationery A/c | | | 25 | |
| ,, 31 | To Kersi & Co. | | | 450 | | ,, 31 | By Goods A/c | | | 125 | |
| | | | | | | ,, 31 | By Commission A/c | | | | 30C |
| | | | | | | ,, 31 | By Furniture A/c | | | | 1,575 |
| | | | | | | ,, 31 | By Balance c/d | | | 900 | 17,945 |
| | | | 35 | 22,075 | 21,575 | | | | 55 | 22,075 | 21,575 |
| Feb. 1 | To Balance b/d | | | 900 | 17,945 | | | | | | |

**Note 1.** Kirti & Co.'s cheque for Rs. 600 was paid into bank on 7th January. It was received on 4th January and we credited Kirti & Co. on the same day. Thus this cheque is like a cash for us. We have debited 'Bank A/c' and credited 'Cash A/c'. So this is a contra entry.

**2.** On 31st January Jaspal has been allowed a commission. This is a business expense. Therefore, Commission A/c has been debited instead of Jaspal's A/c.

**3.** On 31st January Furniture has been purchased for office from Ram Saran for cash. Here Cash A/c will be credited and not Ram Saran's A/c

**4.** Discount column is not balanced but totalled.

**5.** Cheque received from a customer is entered in the cash column.

**Illustration 10-3**

Prepare a Cash Book from the following transactions :—

| 1981 | | | Rs. |
|---|---|---|---|
| Jan. | 1 | Cash in hand | 474 |
| ,, | 1 | Cash at Bank | 13,186 |
| ,, | 3 | Received from B. Chaturvedi | 1,180 |
| | | and allowed him discount | 20 |
| | | Cash Sales | 268 |
| ,, | 5 | Paid for travelling expenses | 400 |
| ,, | 7 | Cash Purchases | 120 |
| ,, | 8 | Paid to Anil Kumar by cheque | 600 |
| ,, | 9 | Stationery purchased | 12 |
| ,, | 10 | Goods sold for cash | 224 |
| ,, | 11 | Rent paid in cash | 100 |
| ,, | 12 | Withdrawn from Bank for office | 400 |
| ,, | 12 | A Bill payable paid by cheque | 320 |
| | | Paid Lal Chand by cheque | 1,168 |
| | | and he allowed us discount | 32 |
| | 13 | Received from Ram Kumar by cheque | 388 |
| | | and allowed him discount and sent it to Bank | 12 |
| | | Cash Sales | 424 |
| | | Paid into Bank | 2,000 |
| | | Purchased a Building and paid by cheque | 5,600 |
| ,, | 14 | Received a cheque from Lal Chand | 582 |
| | | and allowed him discount and sent it to Bank | 18 |
| | | Cash Sales | 594 |
| ,, | 15 | Received a notice from the Bank that a bill has been collected | 600 |
| ,, | 16 | Bank notifies that Lal Chand's cheque (sent to Bank on 14th January) has been dishonoured | 582 |
| ,, | 18 | Paid Charity | 144 |
| ,, | 31 | Paid into Bank | 600 |

**Solution**

CASH BOOK WITH DISCOUNT, CASH AND BANK COLUMNS

*Receipts*

| Date | Particulars | L.F | Discount Rs. | Discount P. | Cash Rs. | Cash P. | Bank Rs. | Bank P. |
|---|---|---|---|---|---|---|---|---|
| 1977 Jan. 1 | To balance b/d | | | | 474 | - | 13,186 | - |
| ,, 1 | ,, B. Chaturvedi | | 20 | - | 1,180 | - | | |
| | ,, Sales A/c | | | | 268 | - | | |
| ,, ,, | ,, Sales A/c | | | | 224 | - | | |
| ,, 11 | ,, Bank A/c | (C) | | | 400 | - | | |
| ,, 13 | ,, Ram Kumar | | 12 | - | | | 388 | - |
| | ,, Sales A/c | | | | 424 | - | | |
| ,, ,, | ,, Cash A/c | (C) | | | | | 2,000 | - |
| ,, ,, | ,, Lal Chand | | 18 | - | | | 582 | - |
| ,, 14 | ,, Sales A/c | | | | 594 | - | | |
| ,, 15 | ,, Bank A/c for the collection of the bill | | | | | | 600 | - |
| ,, 31 | ,, Cash A/c | (C) | | | | | 600 | - |
| | | | 50 | - | 3,564 | - | 17,356 | - |
| Feb. 1 | To Balance b/d | | | | 188 | - | 8,686 | - |

*Payments*

| Date | Particulars | L. F. | Discount Rs. | Discount P. | Cash Rs. | Cash P. | Bank Rs. | Bank P. |
|---|---|---|---|---|---|---|---|---|
| 1977 Jan. 5 | By Travelling expenses A/c | | | | 400 | - | | |
| ,, 7 | ,, Purchases A/c | | | | 120 | - | | |
| ,, 8 | ,, Anil Kumar | | | | | | 600 | - |
| ,, 9 | ,, Stationery A/c | | | | 12 | - | | |
| ,, 11 | ,, Rent A/c | | | | 100 | - | | |
| ,, ,, | ,, Cash A/c | (C) | | | | | 400 | - |
| ,, 12 | ,, Bills Payable A/c | | | | | | 320 | - |
| | ,, Lal Chand | | 32 | - | | | 1,168 | - |
| ,, ,, | ,, Bank A/c | (C) | | | 2,000 | - | | |
| | ,, Building A/c | | | | | | 5,600 | - |
| ,, 13 | ,, Lal Chand | | 18 | - | | | 582 | - |
| ,, 16 | ,, Charity A/c | | | | 144 | | | |
| ,, 18 | ,, Bank A/c | (C) | | | 600 | - | | |
| ,, 31 | ,, Balance c/d | | | | 188 | - | 8,686 | - |
| | | | 50 | - | 3,564 | - | 17,356 | - |

Note 1. Discount allowed by Lal Chand will be credited on dishonour of his cheque.

2. On 15th a notice of Collection of Bill has been received from Bank. We had debited 'Bank A/c for Collection of the Bill' and credited 'Bills Receivable A/c'. On receipt of the notice of Collection 'Bank A/c for Collection of Bill' will be credited.

**Standard Questions**

1. What is Bank Column Cash Book ? Why is it prepared ?
2. How is Bank Column Cash Book prepared ?
3. Define Bank. Discuss the functions of a Bank in detail.
4. Define cheque ? What are its essentials. What particulars are filled on it ?

**Practical**

1. Compile a Bank Column Cash Book from the following transactions :

| 1980 | | | Rs. |
|---|---|---|---|
| June | 1 | Cash Balance | 500 |
| ,, | 1 | Bank Balance | 1,750 |
| ,, | 5 | Cash Received from sale of shares | 5,500 |
| ,, | 6 | Paid into Bank | 5,000 |
| ,, | 7 | Paid S. Bose by cheque | 1,250 |
| ,, | 9 | Paid Wages in Cash | 300 |
| ,, | 10 | Received from A. Mukerji by cheque and sent to Bank | 600 |
| ,, | 21 | Drawn from Bank | 500 |
| ,, | 29 | Paid Office salaries in Cash | 400 |
| ,, | 30 | Sold goods for Cash and banked the same | 800 |
| ,, | 30 | Paid Rent by cheque | 100 |
| ,, | 30 | Paid into Bank | 750 |

**Ans.** Cash in hand Rs. 50
Cash at Bank Rs. 7,050.

2. Write out the following transactions in Cash Book with Discount, Cash and Bank columns of Shri Ram Kumar.

1980

July 1 Cash in hand Rs. 7,000 and Cash at Bank Rs. 10,00

,, 3 Cash received from Harish Gupta Rs. 2,000 and allowed him discount Rs. 60.

,, 6 Received cheque from Usha Gupta Rs. 600.

| | | |
|---|---|---|
| 1980 July 13 | | Paid Shyam Lal & Co. by cheque Rs. 330. in full settlement of their account for Rs. 350. |
| ,, | 15 | Discount bill receivable of Rs. 2,500 with Dena Bank crediting Current Account with Rs. 2,400. |
| ,, | 18 | Drew for private expenses by cheque Rs. 250. |
| ,, | 20 | Deposited Usha Gupta's cheque into Bank. |
| ,, | 21 | Drew for office use Rs. 150 by cheque. |
| ,, | 22 | Paid cash for postage Rs. 15. |
| ,, | 24 | Paid Hari Ram Verma by cheque for commission Rs. 110. |
| ,, | 26 | Received cheque for commission Rs. 500 from Bhagwan Chaturvedi & Co. and paid the same into Bank. |
| ,, | 30 | Paid Rent by Cheque Rs. 110. |
| ,, | 31 | A customer pays into our Bank Account Rs. 20. |

**Ans.** Cash in hand Rs. 9,135.
Cash at Bank Rs. 12,570.
Debit Total of discount column Rs. 160.
Credit ,, ,, ,, ,, 20.

**3. ENTER THE FOLLOWING TRANSACTIONS IN A THREE COLUMN CASH BOOK**

| 1981 | | | | Rs. |
|---|---|---|---|---|
| Jan. 1 | Started business with Cash | ... | | 20,000 |
| ,, 2 | Opened current account with the Punjab National Bank | ... | | 8,000 |
| ,, 3 | Bought goods by cheque | ... | | 150 |
| ,, 4 | Received cheque from Rama | ... | | 200 |
| | Allowed him discount | ... | | 10 |
| ,, 5 | Sold goods for cash | ... | | 40 |
| ,, 7 | Paid into P.N. Bank | | | |
| | Cash | | Rs. 30 | |
| | Cheque | | Rs. 200 | 230 |
| ,, 8 | Paid Shyam by cheque | ... | | 345 |
| | Discount allowed | ... | | 5 |
| ,, 9 | Paid Carriage by cheque | ... | | 180 |
| ,, 10 | Drew from Bank Cash for office | ... | | 200 |
| ,, 30 | Paid wages by cheque | ... | | 60 |

**Ans.** Cash in hand Rs. 12,210
Cash at Bank Rs. 7,295

**4.** Prepare Cash Book with discount, Cash and Bank Column from the following particulars :

| | | |
|---|---|---|
| 1980 Jan. | 1 | Cash in hand Rs. 3,000 and Cash at Bank Rs. 12,000. |
| ,, | 2 | Received Cash from C. Lal & Co. Rs. 2,000 |
| ,, | 3 | Deposited into Bank Rs. 3,500. |

| | | |
|---|---|---|
| 1980 | | |
| July 14 | Paid to Ramesh Gupta by cheque Rs. 530. in full settlement of his account for Rs. 550. | |
| „ 15 | Received for Cash sales by cheque Rs. 300. | |
| „ 18 | Drew for office use Rs. 200. | |
| „ 20 | Deposited a cheque of Rs. 300 into Bank. | |
| „ 23 | Drew a cheque of Rs. 200 for personal use. | |
| „ 24 | Paid by cheque for office stationery Rs. 100. | |
| „ 26 | Paid Cash for Freight Rs. 35. | |
| „ 27 | Received from Rajendra Gupta & Co. Rs. 725. in full settlement of their account for Rs. 800. | |
| „ 28 | Paid Rent by cheque Rs 50. | |
| „ 29 | Paid Salaries by cheque Rs. 200. | |
| „ 30 | Paid to Gian Kumar by cheque Rs. 530 in full settlement of their account for Rs. 600. | |
| „ 31 | Cash sales Rs 500. | |

**Ans.** Cash in hand Rs. 2,890.
Cash at Bank Rs. 13,990
Debit Total of Discount column Rs. 75.
Credit Total of Discount column Rs. 90.

**5.** Complete a Bank Column Cash Book from particulars given below :

| 1980 | | Rs. |
|---|---|---|
| Jan. 1 | Mr. Nem Chand Gupta commenced business with cash | 15,000 |
| „ 2 | Opened current account and deposited | 10,000 |
| „ 3 | Bought goods and paid for them by cheque | 5,000 |
| „ 4 | Received from Mangat Rai a cheque | 970 |
| | Allowed him discount | 30 |
| „ 10 | Bank Charges | 15 |
| „ 16 | Paid rent for the month by cheque | 75 |
| „ 20 | Received a cheque from Mr. Yog Raj and paid it into Bank on the same day | 2,000 |
| „ 26 | Drew from Bank Cash for office | 1,000 |
| „ 28 | Paid cash for trade expenses | 80 |
| „ 29 | Paid Vijay Kumar by cheque | 290 |
| | Discount allowed by him | 10 |
| „ 31 | Drew from bank cash for private expenses | 100 |
| „ 31 | Interest collected by bank | 30 |

**Ans.** Cash Balance Rs. 6,890 and Bank Balance Rs. 5,550.
Dr. Total of Discount Column Rs. 30.
Cr. Total of Discount Column Rs. 10.

6. Compile a three-column Cash Book from the following transactions :

| 1980 | | |
|---|---|---|
| Jan. | 1 | Yog Raj Monga commenced business with cash Rs 20,000. |
| ,, | 2 | Deposited into Bank Rs 10,000. |
| ,, | 3 | Sold goods to Prem Chandra for Rs. 600 and received cheque. |
| ,, | 4 | Paid into Bank cheque for Rs. 600. |
| ,, | 5 | Paid Swadesh Kumar by cheque Rs. 99 and discount allowed by him Re. 1. |
| ,, | 6 | Bought goods from Roshan Lal and paid him by cheque Rs. 560 |
| ,, | 7 | Paid cash for postage Rs 30. |
| ,, | 8 | Bought furniture and paid the same day by cheque Rs 160. |
| ,, | 9 | Sold goods for cheque Rs. 1,600 and paid it into the Bank same day. |
| ,, | 12 | Received from Virendra Kumar Chopra a cheque for Rs. 725 and discount allowed Rs 5. |
| ,, | 13 | Received from Iqbal Singh a cheque for Rs 400. |
| ,, | 15 | Paid into the Bank cash Rs. 600 and cheque for Rs. 725. |
| ,, | 16 | Paid travelling expenses by cheque for Rs. 160. |
| ,, | 21 | Virendra Kumar Chopra's cheque returned dishonoured by Bank for Rs. 725 and discounting charges Rs 5. |
| ,, | 22 | Paid Harish Kumar Gupta cash Rs. 560. |
| ,, | 23 | Drew from Bank, cash for office Rs. 400. |
| ,, | 24 | Received from Lal Chand a cheque for Rs. 600. |
| ,, | 25 | Endorsed a cheque received from Lal Chand in favour of Ram. |
| ,, | 31 | Bank charges as per Pass Book Rs. 7. |
| ,, | 31 | Paid cash for Rent Rs. 140. |

**Ans.** Cash in hand Rs. 9,470.
Cash at Bank Rs. 11,414.
Debit Total of discount Column Rs. 5.
Credit ,, ,, ,, ,, Rs. 6.

# Bank Reconciliation Statement

Generally businessmen open a Current Account in a bank, and maintain a Three Column Cash Book in their office. A bank column is also prepared apart from amount column in this book. When the amount is deposited into bank or withdrawn from bank it is recorded in the bank column of the Cash Book. When the businessman deposits cash into bank it increases his assets (Bank Balance) and according to the accounting equation, increase in asset is debited. Therefore the businessman will record this transaction in the bank column of the debit side of the Cash Book. But when the businessman withdraws Cash from the bank his assets are decreased and decrease in asset is credited. Therefore, he will record this transaction in the bank column on the credit side of the Cash Book. Similarly, when cash is deposited into bank it increases the liability of the bank and according to the accounting equation increase in liability is credited. Therefore, the bank will credit the businessman's account with this amount. When the bank makes payment of the businessman's cheques it decreases the bank's liability and decrease in the liability is debited. Therefore the bank will debit the businessman's account with this amount. The bank maintains the businessman's account in its ledger and its copy is recorded in the Pass Book and given to the customer. Sometimes it so happens, that balance of the bank column of the Cash Book does not show the same balance as that shown by Pass Book. Both these balances may be correct, yet may show a difference. In order to tally the balance of the bank column of the Cash Book with that of the Pass Book a statement is prepared.

The statement that is prepared for reconciling the balances of Cash Book and Pass Book is called a *Bank Reconciliation Statement.* The difference between these two balances may be because of the following reasons :

1. **Cheques issued but not presented for payment**—When the businessman makes payment through a cheque he enters it on the credit side of his Cash Book on the same day. It reduces the balance of his Cash Book. The bank will not debit the businessman's A/c unless the cheque is presented for payment. Thus the difference between the two balances continues till such cheques are presented for payment.

2. **Cheques sent for Collection but not collected by the Bank**—The businessman sends all those cheques to the bank which he receives from other parties and enters them on the debit side of his Cash Book (Bank Column) This increases the debit balance of the bank column of his Cash Book. The bank will not make any entry

in the businessman's A/c unless these cheques are realised. The businessman enters it in his Cash Book as soon as the cheques are sent to the bank and the bank enters these cheques only when these cheques are realised. This is the second cause of difference between the two balances.

3. **Credits made by Bank for Interest allowed by the Bank**—The bank allows interest on the sums deposited by the businessman from time to time. When it allows interest it enters on the credit side of the businessman's A/c. The businessman enters this amount of interest in his Cash Book only when he receives the information from the bank. These two balances will not tally till it is recorded in the Cash Book.

4. **Debits made by the Bank for Bank Charges, Commission and other charges**—The bank renders many services to his customers and charges for these services. The bank also discounts the cheques, hundies and bills of exchange of its customers and charges commission for the same. The bank debits the customer's account with bank commission or bank charges and the businessman will not make any entry unless he receives the information from the bank. So the two balances show a difference.

5. **Payments made by the Bank—Insurance premium and Bills Payable, etc.**—Sometimes the businessman orders the bank to make payment of his bills payable and insurance premium. The bank makes these payments and debits the customer's account. But the businessman enters the same in his book only when he receives the intimation from the bank. Till it is done the two balances show a difference.

6. **Collection made by the bank—Dividend, etc.**—The bank collects certain amounts on behalf of its customer and enters them in his account. But the customers does so only after receiving the intimation. The customer's balance in the bank increases but the Cash Book balance remains the same.

7. **Dishonour of Bills or Cheques**—When the businessman sends the bills or cheques to the bank for realisation, he enters them on the debit side of his Cash Book and thus increases the balance. But the Bank does not make any entry in the customer's account if these are dishonoured. This is another cause of difference between the two balances.

8. **Interest charged on Overdraft by the bank**—When the businessman withdraws more than his deposits, it is called overdraft. The bank gives the facility only to those customers who operate a Current Account. The bank charges interest on this overdraft. This reduces the businessman's balance in the bank's ledger but the businessman's Cash Book is not affected because the businessman enters it only when he receives the intimation from the bank.

9. **Cheques paid into Bank but omitted to be entered in Cash Book**—Sometimes the businessman deposits a cheque into the bank

but forgets to enter the same in Cash Book. This also causes a difference between the two balances.

10. **Cheques issued and payment received by the Payee but the issue of cheques being omitted to be entered in the Cash Book**— Sometimes cheques are issued but not entered in cash book. The payee gets them cashed from the bank. This also causes a difference in the two balances.

11. **Any wrong entry on the debit side of the Pass Book** —When the bank enters a wrong amount on the debit side of the Pass Book then the balances of the Cash Book and the Pass Book will differ.

12. **Any wrong entry on the credit side of the Pass Book**— Similarly any wrong entry on the credit side of the Pass Book will also cause difference between the two balances.

13. **Rebate on retiring of bills**—Sometimes the businessman makes payment of his Bills Payable before maturity if he can arrange for the funds. He is allowed a rebate on such payments by the bank. The bank credits the businessman's account with this rebate. It also causes a difference between the two balances.

**Methods of Preparing Bank Reconciliation Statement**

There are two methods of preparing Bank Reconciliation Statement :

1. **Start with the Cash Book Balance**—According to this method Bank Reconciliation Statement is prepared from the Cash Book Balance and the Pass Book Balance is arrived at.

2. **Start with the Pass Book Balance**—According to this method Bank Reconciliation Statement is prepared from the Pass Book Balance and the Cash Book Balance is arrived at.

**Preparing Bank Reconciliation Statement from the Bank Column of the Cash Book**

When the businessman prepares the Bank Reconciliation Statement from the Cash Book Balance then he will have to see to the causes that increase or decrease the balance. We shall discuss these causes separately.

1. **Cheques issued but not yet presented for payment**—When the businessman issues cheques he enters them on the credit side of his Cash Book. It reduces the balance of the bank column. But the Pass Book balance is not reduced unless these cheques are paid for by the bank. Thus the Cash Book balance is reduced and the Pass Book balance remains the same. Therefore, in order to tally the two balances such cheques as have not yet been paid for should be added to the balance of the Cash Book. To know the amount of cheques unpaid, these cheques should be tick-marked (√) that have been entered into both the Cash Book and the Pass Book. The remaining cheques entered into Cash Book should be added up. It will show

the cheques unpaid. This amount should be added to the balance of the Cash Book *i,e.* it should be written in the plus (+) column.

2. **Cheques deposited but not yet collected**—When the businessman deposits the cheques into the bank for realisation he enters them on the debit side of his Cash Book. It increases the bank balance in his Cash Book. But the bank will not enter them unless they have been realised. Therefore, the Cash Book shows a greater balance than the Pass Book. To reconcile these two balances such cheques as have not yet been collected should be deducted from the Cash Book balance. This will reduce the Cash Book balance and both the balances will reconcile.

3. **Credits made by the Bank for Interest, etc.**—When the bank credits the businessman's account with the amount of interest, it increases the Pass Book balance and as there is no entry of the same in the Cash book, it shows a lesser balance. Therefore, to reconcile the two balances, it should be added to the Cash Book balance.

4. **Debits made by the Bank for Commission, Bank charges, etc.**—The bank debits the businessman's account with the amount of Commission and Bank charges for rendering services. It reduces the Pass Book balance. The Cash Book shows a greater balance because there is no entry for these charges. Therefore, to reconcile the two balances such charges should be deducted from the Cash Book.

5. **Collection made by the Bank**—The Bank collects dividend on the Shares held by the customer and credits them with this amount. This increases the Pass Book balance but the Cash book shows a lesser balance. Therefore, to reconcile the two balances this amount should be added to the Cash Book balance.

6. **Payments made by the Bank**—The bank makes payment on behalf of its customers *e g.*, Bills payable, insurance premium, etc. This reduces the Pass Book balance and the Cash Book balance remains comparatively greater. Therefore, to find out the balance of the Pass Book this amount should be deducted from the balance of the Cash Book.

7. **Dishonour of Cheques or Bills**—If a cheque or bill discounted with the bank is dishonoured, the bank debits businessman's account with this amount. It reduces the Pass Book balance and the Cash Book shows a greater balance. Therefore,to find out the Pass Book balance such amounts should be deducted from the Cash Book balance.

8. **Cheques paid into Bank but omitted to be entered in Cash Book**—When the businessman deposits cheque into bank. the bank credits the businessman's account with the amount of these cneques. But as there is no entry in the Cash ,Book it shows a lesser balance. Thus in order to find out the Pass Book balance such amounts should be added to the Cash Book balance.

9. **Cheques issued and payment received by the payee but issue of cheques being omitted to be entered in the Cash**

**Book**—The businessman gives cheques to his creditors. The bank, after making payment of these cheques, debits the businessman's account. This reduces the Pass Book balance. But the Cash Book shows a larger balance. Therefore, in order to find out the balance of the Pass Book the amount of such cheques should be deducted from the Cash Book balance.

10. **Cheques entered on the debit side of the Cash Book but not sent to Bank**—Such cheques as have been entered on the debit side of the Cash Book but not sent to bank will increase the Cash Book balance but the Pass Book will show a lesser balance. Therefore, in order to find out the Pass Book balance, the amount of the such cheques should be deducted from the balance of the Cash Book.

11. **Any wrong entry on the credit side of the Pass Book**—Any wrong entry on the credit side of the Pass Book by the bank increases the balance. But the Cash Book balance remains less. Therefore, in order to find out the Pass Book balance such amount should be added to the Cash Book balance.

12. **Any wrong entry on the debit side of the Pass Book**—Any wrong entry on the debit side of the Pass Book by the bank will reduce the balance. But the Cash Book balance will be greater Therefore, in order to find out the Pass Book balance such amount should be deducted from the Cash balance.

13. **Rebate on retiring of bill**—When the businessman makes payment of his Bills Payable before maturity, the bank allows a rebate and credits the businessman's account with this amount. This increases the Pass Book balance. But the Cash Book shows a lesser balance. Therefore, in order to find out the Pass Book balance such amount should be added to the Cash Book balance.

BANK RECONCILIATION STATEMENT

*As on... ...*

| | Rs. | Rs. |
|---|---|---|
| Balance as per Cash Book | | |
| *Add* : (*i*) Cheques issued but not yet presented for payment | | |
| (*ii*) Interest credited by the Bank | | |
| (*iii*) Dividend collected by the Bank | | |
| (*iv*) Direct Deposit by Customers | | |
| *Less* : | | |
| (*i*) Cheques sent for collection but not yet collected | | |
| (*ii*) Bank Charges | | |
| (*iii*) Bills dishonoured | | |
| (*iv*) Payments made by the Bank for insurance Premium etc. | | |
| Balance as per Pass Book | | |

**Illustration 11-1**

At the end of year, a merchant's Cash Book showed a bank balance of Rs. 536·50. On comparing the same with the Bank Pass

Book he found that three cheques amounting to Rs. 60·00, Rs. 39·50 and Rs. 15.50 had been issued towards the close of the year. They were presented for payment in January next. Two cheques amounting to Rs. 50 00 and Rs. 65·00 deposited by him had not been credited during the year. The bank has also debited the firm with Rs. 46 for commission on collection of cheques and Rs. 10 had been credited by Bank for interest. Show the Bank Reconciliation Statement.

**Solution**

BANK RECONCILIATION STATEMENT

*As on.........*

| | Rs. | P. | Rs. | P. |
|---|---|---|---|---|
| Balance as per Cash Book | | | 536 | 50 |
| *Add* : Cheques issued but not yet presented | | | | |
| No. 1 | 60 | — | | |
| No. 2 | 39 | 50 | | |
| No. 3 | 15 | 50 | | |
| *Add* : Interest allowed by the Bank but not entered in the Cash Book | 10 | — | 125 | — |
| | | | 661 | 50 |
| *Less:* Cheques sent for collection but not yet collected | | | | |
| No. 1 | 50 | — | | |
| No. 2 | 65 | — | | |
| *Less* : Bank Commission charged but not ented | 46 | — | 161 | — |
| Balance as per Pass Book | | | 500 | 50 |

The above question can be solved in another way. According to this method there are two amount columns, one for plus amount and the second for minus amount Plus amount means that amount which increases the balance and minus amount means that amount which decreases the balance. The question will be solved in the following way—

BANK RECONCILIATION STATEMENT

| Items | Plus | Minus |
|---|---|---|
| (1) Balance as per Cash Book | + | |
| (2) Cheques issued but not yet presented for payment | + | |
| (3) Interest Allowed by Bank not entered in Cash Book | + | |
| (4) Cheques paid into Bank but omitted to be entered in Cash Book | + | |
| (5) Direct Collections made by Bank, not entered in Cash Book | + | |
| (6) Cheques issued and Dishonoured but no entry being passed in Cash Book for Dishonour | + | |
| (7) Anywrong entry in Cr. side of Pass Book | + | |

| | | |
|---|---|---|
| (8) Rebate on Retiring of a bill | + | |
| (9) Cheques paid into Bank but not collected | | – |
| (10) Interest and Expenses charged by Bank but not entered in Cash Book | | — |
| (11) Cheques paid into Bank and dishonoured but not entry being passed in Cash book for dishonour | | — |
| (12) Cheque issued and payment received by the payee but the issue of cheque being omitted to be entered in the Cash Book | | — |
| (13) Cheques entered in the Dr. side of Cash Book but not sent to Bank | | – |
| (14) Direct payments from Bank but not entered in Cash Book | | — |
| (15) Any wrong entry in Dr. side of Pass Book | | — |

BANK RECONCILIATION STATEMENT

*As on.........*

| Items | Plus Items | Minus Items |
|---|---|---|
| | Rs. | Rs. |
| Balance as per Cash Book | 536.50 | |
| *Add* : Cheques issued but not presented Cheque No 1 Rs. 60·00 ; No. 2 Rs. 39·50 ; No. 3 Rs. 15·50 | 115 | |
| *Add* : Interest allowed by the Bank | 10 | |
| *Less* : Cheques sent for collection but not yet collected Cheque No. 1 Rs. 50·00 ; No. 2 Rs. 65·00 | | 115 |
| *Less* : Bank charges | | 46 |
| | 661·50 | 161 |
| Balance as per Pass Book | 500·50 | |

**Note 1.** By debiting the Cash Book, the balance of the Cash Book is increased and by debiting the Pass Book, the balance of the Pass Book is reduced

2. When the businessman deposits in the bank, the Cash Book shows a debit balance and the Pass Book shows a credit balance.

3. Balance as per Ledger A/c means Balance of the bank column of the Cash Book.

**Points Regarding Preparing Bank Reconciliation Statement**

While preparing Bank Reconciliation Statement it should be noted as to what is given and what is to be found out. If we start from Cash Book and want to arrive at the Pass Book balance, we should note the items which the Bank has added in the Pass Book and the items which the bank has deducted from the Book. We should proceed accordingly

## Preparation of Bank Reconciliation Statement by Balance of Pass Book

The second method of preparing the Bank Reconciliation Statement is to start with the Pass Book balance. In this method the balance of the Pass Book is given and the Cash Book balance is to be found out. This method is reverse of the previous method. Those items that are added in the first method are deducted in this method and *vice versa*.

BANK RECONCILIATION STATEMENT

*As on...*

| | Rs. | Rs. |
|---|---|---|
| Balance as per Pass Book | | |
| *Add :* | | |
| (*i*) Cheque sent for collection but not yet collected | | |
| (*ii*) Bank Charges | | |
| (*iii*) Bills or Cheques dishonoured | | |
| (*iv*) Payment made by the Bank—Insurance Premium etc. | | |
| *Less :* | | |
| (*i*) Cheques issued but not yet presented for payment | | |
| (*ii*) Interest credited by the Bank | | |
| (*iii*) Dividends collected by Bank | | |
| Balance as per Cash Book | | |

**Illustration 11-2**

From the following particulars prepare a Bank Reconciliation Statement as on 31st December, 1979 :

On 31st December, 1979, Anil Kumar Gupta's Pass Book showed a credit Balance of Rs. 10,800. A comparison of the entries with the Cash Book revealed that he had paid in cheques amounting to Rs. 1,200 on 28th December, 1979, which were not credited in his account. He had issued cheques amounting to Rs. 1,500 before 31st December, 1979 which were not presented for payment during the month. There was a debit of Rs. 25 in the Pass Book in respect of Bank Charges and a credit of Rs. 35 for interest on current account.

**Solution**

*First Method*

BANK RECONCILIATION STATEMENT

*As on December 31, 1979*

| | Rs. | Rs. |
|---|---|---|
| Balance as per Pass Book | | 10,800 |
| *Add :* | | |
| (*i*) Cheques sent for collection but not yet collected | 1,200 | |
| (*ii*) Bank Charges | 25 | |
| | | 1,225 |
| | | 12,025 |
| *Less :* | | |
| (*i*) Cheques issued but not yet presented for payment | 1,500 | |
| (*ii*) Interest allowed by the Bank | 35 | |
| | | 1,535 |
| Balance as per Cash Book | | 10,490 |

*Second Method*

The above question can be solved by the second method in the following way :

BANK RECONCILIATION STATEMENT

*As on December 31, 1979*

| Particulars | Plus Items | Minus Items |
|---|---|---|
| | Rs. | Rs. |
| Balance as per Pass Book | 10,800 | |
| *Add :* | | |
| (*i*) Cheques paid in but not yet cleared | 1,200 | |
| (*ii*) Bank Charges | 25 | |
| *Less :* | | |
| (*i*) Cheques issued but not yet presented for payment | | 1,500 |
| (*ii*) Interest allowed by the Bank | | 35 |
| Balance as per Cash Book Rs. 10,490 | 12,025 | 1,535 |

**Preparation of Bank Reconciliation Statement by Credit Balance of Cash Book or Overdraft as per Cash Book**

The bank gives facility to overdraw to those customers who are operating current account. When the bank gives this facility he takes into account the financial position of the customer.

When a customer overdraws from the bank, the bank column of his Cash Book will show a credit balance. Those transactions that affect the overdraft of the Cash Book are the following :

1. **Cheques issued but not presented for payment**—When the trader issues cheques he enters them on the credit side of the Cash Book. If there is overdraft in the Cash Book it is further increased due to this entry. But the Bank is not affected because the bank does not make any entry unless it clears the cheques.

2. **Cheques sent for collection but not collected**—When the trader sends cheques to the bank for collection, he debits his Cash Book. It reduces his overdraft. But the bank will not enter the same unless the cheque is realised. Thus the overdraft as per Pass Book will be more than that of the Cash Book.

3. **Debits made by the bank**—When the bank debits the trader's account, it increases his overdraft. But the Cash Book is not affected because the trader will not pass any entry unless he receives an intimation from the bank.

4. **Credit made by the Bank**—If the bank credits the customer's account, the overdraft in the bank's books is reduced But the Cash Book is not affected because the trader has not received any information.

5. **Interest charged on Overdraft.** The trader becomes debtor of the bank when he overdraws. The interest payable to the bank is an expense for the trader and gain for the bank. The bank debits the trader's account with the amount of this interest. It increases the amount of overdraft. The trader will not make any entry unless intimated.

If the Cash Book shows an overdraft the position of the Bank Reconciliation Statement would be as follows :

BANK RECONCILIATION STATEMENT

*As on.........*

| | Rs. | Rs. |
|---|---|---|
| Overdraft as per Cash Book | | |
| *Add :* Cheques sent for collection but not yet collected by the Bank | | |
| ,, Bank Charges | | |
| ,, Interest on Overdraft | | |
| *Less :* Cheques issued but not yet presented for payment | | |
| ,, Interest (on previous deposits) | | |
| ,, Dividend on investments | | |
| ,, Direct deposit by the customer | | |
| ,, Overdraft as per Pass Book | | |

**Note 1.** Interest on overdraft is charged by the bank from the trader. It debits the trader's account which increases the amount of overdraft.

2. The bank allows interest on trader's balance and thus credits the same. It reduces the amount of overdraft.

3. If a customer of the trader directly pays into his account in the bank, the bank credits the same in the trader's account. It reduces the amount of overdraft.

**Illustration 11-3**

Prepare a Bank Reconciliation Statement from the following particulars :

Messrs. Sunder Lal & Sons find that the Bank Balance shown by their Cash Book on 31st December, 1980 is Rs. 10,500 (credit), but the Pass Book shows a difference due to the following reasons :

(1) Cheque No 51 for Rs. 540 favouring A B. & Co. has not yet been presented.

(2) A post-dated cheque for Rs. 300 has been debited in the bank column of the Cash Book but could not have been presented in any case.

(3) Four cheques totalling to Rs. 1,200 sent to bank have not yet been collected while a fifth cheque for Rs. 400 deposited in the account has not been dishonoured.

(4) Fire Insurance premium amounting to Rs. 50 paid by the bank under a standing order has not been entered in the Cash Book.

(5) A bill for Rs. 1,000 was retired by the bank under a rebate of Rs. 15 but the full amount of the bill was credited in the bank column of the Cash Book.

**Solution** (A)

BANK RECONCILIATION STATEMENT

*As on 31st December, 1980*

| Particulars | Amount | Total |
|---|---|---|
| | Rs. | Rs. |
| Overdraft as per Cash Book | | 10,500 |
| *Add :* Post-dated cheque entered but not presented | 300 | |
| ,, Cheques sent but not collected | 1,200 | |
| ,, Cheques deposited but dishonoured | 400 | |
| ,, Fire Insurance Premium paid by Bank | 50 | 1,950 |
| | | 12,450 |
| *Less :* Cheques No. 51 issued but not presented | 540 | |
| ,, Bill retired by the bank under rebate of Rs. 15 | 15 | |
| | | 555 |
| | | 11,895 |
| Overdraft as per Pass Book | | |

If the Bank Reconciliation is prepared by the above method the trader has to add and deduct the amounts over and again. It can be prepared in another way also. Overdraft, whether of the

Pass Book or Cash Book, is treated a minus item. Separate columns are prepared for minus items and plus items. Remaining treatment is the same as discussed earlier. Following method can be useful.

**Solution (B)**

BANK RECONCILIATION STATEMENT

*As on 31st December, 1979*

| Particulars | Plus Items | Minus Items |
|---|---|---|
| | Rs. | Rs. |
| Overdraft as per Cash Book | | 10,500 |
| *Add* : Cheque No. 51 issued but not yet presented for payment | 540 | |
| *Less* Post-dated cheque entered in the Cash Book but not presented | | 300 |
| *Less* Cheques sent for collection but not yet collected by the Bank | | 1,200 |
| *Less* Cheques deposited into the Bank but dishonoured and not entered in the Cash Book | | 400 |
| *Less* Fire Insurance Premium paid by Bank | | 50 |
| *Add* : Debate allowed for the bills retired but not entered in the Cash Book | 15 | |
| | 555 | 12,450 |

Overdraft as per Pass Book=Rs 12,450—555·00=Rs .11,895

**Preparation of Bank Reconciliation Statement by Overdraft of Pass Book**

When overdraft of Pass Book is given the overdraft of the Cash Book is to be found. The method will be just opposite of the previous method.

**Illustration 11-4**

In comparing the Bank Pass Book on 30th June with the Bank A/c in Ledger, we find that the Pass Book shows an Overdraft of Rs. 500.

The following differences are found :

(*a*) A charge of 75 P. has been made by the Bank for collecting an outstanding cheque.

(*b*) Rs. 27·50 has been credited by the Bank for half-yearly interest.

(*c*) Two cheques for Rs. 1,000 and Rs. 250 paid in the month of June have not been credited in the Pass Book until 1st July.

(*d*) Two cheques for Rs. 30 and Rs. 475 drawn in June have not been presented at the Bank within 30th June.

Make the necessary Journal Entries to reconcile the balance and prepare a Reconciliation Statement.

**Solution**

JOURNAL ENTRIES

| Date | Particulars | L.F. | Dr. Amount Rs. | P. | Cr. Amount Rs. | P. |
|---|---|---|---|---|---|---|
| | Bank Charges A/c Dr.<br>To Bank A/c<br>(For Bank Charges not yet entered in the Cash Book) | | — | 75 | — | 75 |
| | Bank A/c Dr.<br>To Interest A/c<br>(For interest allowed by the Bank) | | 27 | 50 | 27 | 50 |

BANK RECONCILIATION STATEMENT

*As on 30th June*

| Particulars | Plus Items Rs. | P. | Minus Items Rs. | P. |
|---|---|---|---|---|
| Overdraft as per Pass Book | | | 500 | — |
| *Add* : Bank Charges | — | 75 | | |
| *Less* : Interest allowed by the Bank | | | 27 | 50 |
| *Add* : Cheques sent for collection but not yet collected | 1,250 | — | | |
| *Less* : Cheques issued but not presented for payment | | | 505 | |
| | 1,250 | 75 | 1,032 | 50 |
| Balance as per Cash Book | 218 | 25 | | |

As the total of the plus items exceeds that of minus the Pass Book shows a balance of Rs. 218·25 in favour of the merchant.

**Illustration 11-5**

From the following particulars prepare a statement showing the balance that would appear in the Pass Book of Harish Kumar Gupta as on 31st December, 1979 :—

(*a*) The overdraft as per Cash Book on 31st December, 1979, was Rs. 6,340.

(*b*) Interest on overdraft for six months ending 31st December, Rs. 160, is debited in the Pass Book.

(*c*) Bank Charges for the above period also debited in the Pass Book amount to Rs. 30.

(*d*) Cheque issued but not cashed prior to 31st December, 1979, amounted to Rs. 1,168.

(*e*) Cheques paid into Bank but not cleared before 31st December, 1979, were for Rs. 2,170.

(*f*) Interest on investments collected by the Bank and credited in the Pass Book amounted to Rs. 1,200.

**Solution**

BANK RECONCILIATION STATEMENT

*As on 31st December, 1979*

| Particulars | Plus Items Rs. | P. | Minus Items Rs. | P. |
|---|---|---|---|---|
| Overdraft as per Cash Book | | | 6,340 | - |
| *Less* Interest on Overdraft | | | 160 | - |
| *Less* Bank Charges | | | 30 | - |
| *Add* : Cheques issued but not yet collected | 1,168 | - | | |
| *Less* Cheques paid but not yet collected | | | 2,170 | - |
| *Add* : Interest on investments collected by the Bank | 1,200 | - | | |
| | 2,368 | - | 8,700 | - |
| Overdraft as per Pass Book =8,700—2,368=Rs. 6,332 | | | | |

**Illustration 11-6**

On 31st December, 1980, the Cash Book of a merchant showed a Bank overdraft of Rs. 1,729·84. In comparing the Cash Book with the Bank Pass Book the following discrepancies were noted :—

(*a*) Cheques issued for Rs. 600 were not presented at the bank till 1st January, 1981.

(*b*) Cheques amounting to Rs. 750 were deposited at the bank, but were not collected.

(*c*) A cheque for Rs. 150 received from Mahesh Chand and deposited in the bank was dishonoured and advice of non-payment was not received from Bank till the 1st January, 1981.

(*d*) Rs. 1,500 being the proceeds of a bill receivable collected appear in the Pass Book but not in the Cash Book.

(*e*) Bank charges Rs. 15 and interest on Overdraft Rs. 85 appear in the Pass Book but not in the Cash Book.

Prepare a Reconciliation Statement and show what balance the Bank Pass Book would indicate on 31st December, 1980.

**Solution**

BANK RECONCILIATION STATEMENT

*As on 31st December, 1980*

| Particulars | Plus Items | Minus Items |
|---|---|---|
| | Rs. | Rs. |
| Overdraft as per Cash Book | | 1,729·84 |
| *Add*: Cheques issued but not yet presented for payment | 600 | |
| *Less*: Cheques deposited but not yet collected | | 750 |
| *Less*: Cheques dishonoured | | 150 |
| *Add*: Proceeds of a B.R. collected by the Bank | 1,500 | |
| *Less*: Bank Charges | | 15 |
| *Less*: Interest on overdraft | | 85 |
| | 2,100 | 2,729·84 |
| Overdraft as per Pass Book = 2,729·84—2,100 = Rs. 629·84 | | |

**Illustration 11-7**

**Pass Book**

Messrs Yog Raj & Sons, Jawahar Nagar, Delhi-7 in account with—

DENA BANK SUBZI MANDI DELHI-7

| Date | Particulars | Withdrawals | Deposits | Dr. or Cr. | Balance |
|---|---|---|---|---|---|
| 1980 | | Rs. | Rs | | Rs. |
| Mar. 1 | By Cash | | 1,000 | Cr. | 1,000 |
| „ 5 | To K.D. Gupta | 125 | | Cr. | 875 |
| „ 8 | To Laxmi Pustak Bhandar | 100 | | Cr. | 775 |
| „ 15 | By Rajendra Kumar & Co's Cheque | | 2,000 | Cr. | 2,775 |
| „ 16 | To Harish Kumar Gupta | 500 | | Cr. | 2,275 |
| „ 18 | By Santosh Gupta's Cheque | | 725 | Cr. | 3,000 |
| „ 20 | By Cash | | 200 | Cr. | 3,200 |
| „ „ | To Cash | 100 | | Cr. | 3,100 |
| „ 27 | By J.C. Gupta's Cheques | | 200 | Cr. | 3,300 |
| „ 31 | By Interest | | 100× | Cr. | 3,400 |
| „ 31 | To Bank Charge | 25× | | Cr. | 3,375 |
| „ 31 | To Insurance Premium | 75× | | Cr. | 3,300 |

CASH BOOK (Bank Columns only)

| Date | Particulars | Amount | Date | Particulars | Amount |
|---|---|---|---|---|---|
| 1980 | | Rs. | 1980 | | Rs. |
| Mar. 1 | To Cash | 1,000 | Mar. 5 | By K.D. Gupta | 125 |
| ,, 15 | To Rajendra Kumar | 2,000 | ,, 8 | ,, Laxmi Pustak Bhandar | 100 |
| ,, 18 | To Santosh Gupta | 725 | ,, 16 | ,, Harish Kumar Gupta | 500 |
| ,, 20 | To Cash | 200 | ,, 19 | ,, Usha Gupta | 200× |
| ,, 20 | To Raj Kumar | 300× | ,, 25 | ,, Cash | 100 |
| ,, 20 | To Virendra Chopra | 500× | ,, 26 | ,, Anil Kumar Gupta | 1,500× |
| ,, 27 | To I.C. Gupta | 200 | ,, 31 | ,, Balance c/d | 2,400 |
| | | 4,925 | | | 4,925 |

Given above is an extract from the Pass Book and Cash Book (Bank Columns only of Messrs. Yog Raj and Sons). You are required to prepare therefrom a Bank Reconciliation Statement as on 31st March, 1981.

In the above illustration we have first to find out those items due to which there is a difference between the Cash Book balance and Pass Book balance. For example :

1. **Cheques issued but not yet presented for payment**—To find out the amount of those cheques which the trader his issued to others but have not been presented for payment we should tally the credit side of the Cash Book with the withdrawal side of the Pass Book. Thus if the items written on the credit side of the Cash Book have also been written on the withdrawal side of the Pass Book, these should be tick-marked. Those that are not tick-marked will be those cheques which have not been presented. In the above illustration there are two such amounts which will not be tick-marked. They have been crossed (×).

| | |
|---|---|
| Usha Gupta Rs. | 200 |
| Anil Kumar Gupta Rs. | 1,500 |
| Rs. | 1,700 |

Thus cheques worth Rs. 1,700 have not yet been presented for payment.

2. **Cheques paid in but not yet collected.** For this we have to tally the Receipts Side of the Cash Book with the Deposits Side of the Pass Book and tick-marked in the same way. In the above example two items are of this type :

| | |
|---|---|
| Raj Kumar | Rs. 300 |
| Virendra Gupta | Rs. 500 |
| | Rs. 800 |

3. **Debits made by the Bank—Bank charges, Insurance premium, etc.** These are—

Bank charges Rs. 25
Insurance Premium Rs. 75

Rs. 100

4. **Credits made by the Bank**—These are :

Interest Rs. 100

**Solution**

BANK RECONCILIATION STATEMENT

*As on 31st March, 1980*

| | Rs. | Rs. |
|---|---|---|
| Balance as per Pass Book | | 3,300 |
| *Add* : (i) Cheques sent for collection but not yet collected | 800 | |
| (*ii*) Bank Charges charged by the Bank | 25 | |
| (*iii*) Insurance Premium paid by the Bank | 75 | 900 |
| | | 4,200 |
| *Less* : (i) Cheques issued but not yet presented for payment | 1,700 | |
| (*ii*) Interest allowed the Bank | 100 | 1,800 |
| Balance as per Cash Book | | 2,400 |

OR

| | Rs. | Rs. |
|---|---|---|
| Balance as per Cash Book | | 2,400 |
| *Add* : (*i*) Cheques issued but not yet presented for payment | 1,700 | |
| (*ii*) Interest allowed by the Bank | 100 | 1,800 |
| | | 4,200 |
| *Less* : (*i*) Cheques sent for collection but not yet collected | 800 | |
| (*ii*) Bank Charges charged by the Bank | 25 | |
| (*iii*) Insurance premium paid by the Bank | 75 | |
| | | 900 |
| Balance as per Pass Book | | 3,300 |

**Illustration 11-8**

Ram, a sole trader, maintains two Bank Accounts, No. 1 Account is for his business, No. 2 Account is his private Account.

On June 30, 1981, there was a balance of Rs. 890 standing to his credit in No. 1 A/c.

It was discovered that :—

(*i*) The receipt column of the Cash Book has been overcast by Rs. 1,000.

(ii) Cheques amounting to Rs. 3,760 entered in Cash Book as paid into the Bank have not been cleared.

(iii) Cheques issued amounting to Rs. 5,230 have not been presented.

(iv) Discount allowed Rs. 110 has been included through mistake in the cheque entered in the Bank column of the Cash Book.

(v) A trader credit note of Rs. 290 was received in June 1981, but not recorded in the books.

(vi) A cheque for Rs. 100 originally issued in 1980 was replaced when out of date and entered again in the Cash Book, it was still outstanding (and not out of date) on June 30, 1981. Both the cheques were included in the total of unpresented cheques Rs. 5,230.

(vii) The Bank has charged the No. 2 Account with a cheque for Rs. 2,000 in error. This should have been charged to No. 1 Account.

(*i*) Make the appropriate adjustments in the Cash Book balance ; and (*ii*) Prepare a Bank Reconciliation Statement to show the Bank Balance as per No. 1 Account.

**Solution**

(*i*) RAM'S REVISED CASH BOOK (BANK COLUMN)

| | | | |
|---|---|---|---|
| To Balance b/d | 890 | By correction of error in addition | 1,000 |
| To Traders Credit | 290 | By Correction of discount entered by mistake | 110 |
| To Cheques cancelled | 100 | By Balance c/d (adjusted Balance) | 170 |
| | 1,280 | | 1,280 |

BANK RECONCILIATION STATEMENT

*As at June 30, 1981*

| | *Plus Items* | *Minus Items* |
|---|---|---|
| Adjusted Balance as per Cash Book | 170 | |
| + Cheques issued but not yet presented for payment | 5,130 | |
| + Cheque charged to Account No. 2 by mistake | 2,000 | |
| — Cheques sent for collection but not yet collected | | 3,760 |
| | 7,300 | 3,760 |
| Balance as per Cash Book Rs. 7,300—3,760 Rs. 3,540 | | |

**Standard Questions**

1. What is a Bank Reconciliation Statement and how is it prepared. Submit a proforma example of the same.

2. How a Bank Reconciliation statement is prepared. What are the records necessary for preparing this statement.

**Practical**

1. On 31st December, 1979 your Cash Book shows that you have in the Bank a sum of Rs. 817.

   On checking your cash book, with pass book, you find that cheques drawn by you amounting to Rs. 214 have not passed through the Bank, that cheque for Rs. 84 has not yet been credited to you, and that the bank has credited your account with interest Rs. 22 and debited with discount and other charges Rs. 14.

   Prepare a Bank Reconciliation Statement.

   **Ans.** Balance as per Pass Book. Rs. 955.

2. From the following particulars prepare a Bank Reconciliation Statement showing the Balance as per Bank Pass Book as on 31st December, 1980.

| | Rs. |
|---|---|
| Balance as per Cash Book (Dr.) | 20,000 |
| cheques issued but not presented for payment | 5,000 |
| cheques deposited but not realised | 2,000 |
| Bank Interest not adjusted in the Cash Book | 100 |
| Bank Charges not adjusted in the Cash Book | 50 |

A cheque for Rs. 1,000 received from a customer on 28th December was entered in the Bank column of the Cash Book but it was deposited in the Bank on 2nd January, 1981.

**Ans.** Balance as per Pass Book Rs. 22,050.

3. Shri Surendra Kumar had his account at the Dena Bank. According to his Cash Book, his Bank Balance as on 31st December,1979, was Rs. 750. But the Pass Book made up to the same date showed that cheques for Rs. 150 and Rs. 80 and Rs. 35 respectively had not been presented for payment, all cheques to the amount of Rs. 220 paid into his account have not been cleared by 31st December, 1979 Prepare a Bank Reconciliation Statement as on 31st December, 1979.

   **Ans.** Balance as per Pass Book Rs. 795.

4. From the following Particulars, prepare a Bank Reconciliation Statement as on 31st December, 1979:—

   (*i*) Balance as per Cash Book Rs. 14,400.

   (*ii*) Three cheques for Rs. 1,250, Rs. 870 and Rs. 350 issued in December were presented for payment in January, 1980.

   (*iii*) Two cheques of Rs. 1,500 and Rs. 850 sent for collection but no collection was made during the year.

   (*iv*) The Bank charged Rs. 80 for commission and allowed Rs. 170 for interest.

**Ans.** Balance as per Pass Book Rs. 14,610.

5. From the following particulars, prepare a Bank Reconciliation Statement showing the Balance as per Bank Pass Book. The following cheques were sent in firm's current account in December, 1979 but were credited by the Bank in Jan., 1980.

| | |
|---|---|
| Shri Dayabhai Patel | Rs. 250 |
| ,, Sadoba Patel | Rs. 300 |
| ,, Nagin Dass Patel | Rs. 240 |

The following cheques were issued by the firm in December, 1979 but were presented in January, 1980.

| | |
|---|---|
| Shri Murarji Desai | Rs. 300 |
| ,, Bala Saheb Keer | Rs. 500 |
| ,, Gunvantrai Vartak | Rs. 300 |

A cheque for Rs. 100 which was received from a customer was entered in the Bank column of the Cash Book in December, 1979 but the same was paid into Bank in January, 1980. The Bank Pass Book shows a credit of Rs. 500 for interest and a debit of Rs. 50 for Bank charges. The Bank Balance as per Cash Book was Rs. 18,000 on 31st December, 1979.

(*Based on All India Senior School Certificate Exam.*)

Ans. Balance as per Pass Book Rs. 18,660.

6. On 31st December, 1979, the Pass Book of a merchant shows the credit balance to be Rs. 3,357.

The cheques and drafts sent to the bank but not collected and credited amounted to Rs. 790 and three cheques drawn for Rs. 300, Rs. 150 and Rs. 200 respectively were not presented for payment till 31st January next year.

Bank has paid a bill payable amounting to Rs. 1,000 but it has not been entered in the Cash Book and a bill receivable of Rs. 500 which was discounted with the bank was dishonoured by the drawee on due date.

The Bank has charged Rs. 13 as its commission for collecting outstation cheques and has allowed interest Rs. 10 on the trader's balance.

Prepare Bank Reconciliation Statement and show the balance as shown by the Cash Book.

Ans. Balance as per Cash Book Rs. 5,000.

7. From the following particulars prepare a Bank Reconciliation Statement showing the balance as per Bank Pass Book on 31st December, 1979. The following cheques were paid into the firm's Current Account in December, 1979, but were credited by the Bank in January, 1980 :

Shri Surendra Kumar Rs. 250. Shri Narendra Kumar Rs. 300,

Shri Brijendra Kumar Rs. 120, Shri Anil Kumar Rs. 60 and Shri Sunil Kumar Rs. 60.

The following cheques were issued by the firm in December, 1979 and were cashed in January, 1980 :—

Shri Rajendra Gupta Rs. 300, Shri Harish Gupta Rs. 250, Shri Pal Gupta Rs. 250, Shri Anil Gupta Rs. 150 and Shrimati Usha Gupta Rs. 150.

A cheque of Rs. 100 which was received from a customer was entered in the bank column of the Cash Book in December, 1979 but the same was paid into bank in January, 1980.

The Pass Book shows a credit of Rs. 250 for interest and a debit of Rs. 50 for Bank charges. The balance as per Cash Book was Rs. 15,590 on 31st December, 1979.

Ans. Balance as per Bank Pass Book Rs. 16,000.

8. From the following particulars, prepare a Bank Reconciliation statement showing the balance as per Pass Book on 31st March, 1979.

The following cheques were paid into firm's current account in March, 1979, but were credited by the Bank in April, 1979 :

*A* Rs. 2,500; *B* Rs. 3,500; and *C* Rs. 1,900.

The following cheques were issued by the firm in March 1979 and were cashed in April, 1979 :

*P* Rs. 2,500; *Q* Rs. 4,500; and *R* Rs. 4,000.

A cheque of Rs. 1,000 which was received from a customer was entered in the Bank column of the Cash Book in March, 1979, but the same was paid into the Bank in April, 1979.

The Pass Book shows a credit balance of Rs. 2,500 for interest and a debit balance of Rs. 1,000 for bank charges. The balance as per Cash Book was Rs 1,80,000 on 31st March, 1979.

*(Delhi Senior School Certificate Exam., 1979 and All India Senior School Certificate 1978)*

Ans. Balance as per Pass Book Rs. 1,8[illegible],600.

9. The balance of Cash at Bank as shown by the Cash Book of Yogesh & Co. on 31st December, 1979 was Rs. 7,500, on checking the entries in the Cash Book with the Pass Book, it was ascertained that cheques of Rs. 500 and Rs. 700 respectively paid in on the 30th December were not credited until the 2nd January following, and that cheques of Rs. 600, Rs.800 and Rs. 1,200 issued on the 25th December, were not presented until the 3rd January. There was a credit of Rs. 125 in the Pass Book in respect of interest under date 31st December which was not entered in the Cash Book. There was also Rs. 15 Bank charges debited in the Pass Book. Prepare Reconciliation Statement as on 31st December, 1979.

Ans. Balance as per Pass Book Rs. 9,010.

10. Prepare a Bank Reconciliation Statement from the following particular on 31st July, 1980 :

(a) Balance as per Pass Book Rs. 500.

(b) Three cheques for Rs. 60, Rs. 39.37 and Rs. 15·25 issued in July 1980 were presented for payment at the bank in August, 1980.

(c) Two cheques of Rs. 50 and Rs. 65 sent to the Bank for collection were not entered in the Pass Book by July 31, 1980.

(d) The Bank charged Rs. 46 for its Commission and allowed interest Rs. 10 which were not entered in his Bank A/c.

[*Delhi Senior School Certificate Exam.* (*C*) *1978*]

11. On 31st March, 1979, your Pass Book showed a balance of Rs. 6,000 to your credit. Before that date, you had issued cheques amounting to Rs. 1,500 of which cheques amounting to Rs. 900 only have so far been presented for payment. A cheque of Rs 800 paid by you into the bank on 25th March has not yet been credited in the Pass Book. You had also received a cheque for Rs. 160, which although entered by you in the Bank column of the Cash Book, was omitted to be paid into the Bank. On 31st March, a cheque for Rs. 250 received by you was paid into the bank, but the same was omitted to be entered in the Cash Book. There was a credit of Rs. 85, for interest on current account, Debit of Rs. 10 for bank charges. Draw up a Reconciliation Statement, showing adjustments between your Cash Book and Bank Pass Book.

**Ans.** Balance as per Cash Book Rs. 6,035.

12. On 31st December, 19 ..., I had an overdraft of Rs. 10,700 as shown by my Pass Book. Cheques amouting to Rs. 1,250 had been paid in by me on 29th December but of these only Rs. 750 were credited in the Pass Book. I had also issued cheques amounting to Rs. 2,460 of which Rs. 2,000 worth only seem to have been presented. There is a debit in my Pass Book of Rs. 105 for interest. I also find that a cheque for Rs. 60 which I had been debited to my Bank Account in my books has been omitted to be banked.

Prepare a Bank Reconciliation Statement.

**Ans.** Overdraft as per Cash Book Rs. 10,495.

13. From the following particulars ascertaining the balance by means of a statement that would appear in Pass Book of Mr. *X* as on 31st December, 1978.

| | | Rs. |
|---|---|---|
| 1. | Overdraft as per Cash Book (on 31st December 1978). | 5,270 |
| 2. | Interest on overdraft for six months ending 31st December, 1978. | 120 |
| 3. | Bank charges for the above period | 30 |

4. Cheques drawn but not cashed by the customers prior to 31st Dec., 1978. — Rs. 1,150
5. Cheques paid into Bank but not cleared before 31st December, 1978. — 2,170
6. A B/R discounted with the Bank in November dishonoured (on 31st, December 1978.) — 500

Ans. Overdraft as per Pass Book Rs. 6,940.

**14.** On 31st December, 1979, the Cash Book of a merchant shows a Bank overdraft of Rs. 1,719·22 and the Pass Book a debit balance of Rs. 1,000. A comparison of the two books reveals the following differences :—

(a) Cheques drawn for Rs. 535·25 and a lodgement of Rs. 375·28 are recorded in the Cash Book, but not in the Pass Book.

(b) A dishonoured cheque for Rs. 350 received from Sohan Lal & Co. ; Rs. 1,000 being the proceeds of a bill receivable collected ; Bank charges Rs. 15 ; and interest on overdraft Rs. 75·75 appear in the Pass Book but have not been entered in the Cash Book.

Prepare the necessary Reconciliation Statement.

Ans. Bank overdraft as per Pass Book Rs. 1,000.

**15.** A firm comparing the Ledger Accounts with the Bank Pass Book finds that by their Ledger Accounts they are overdrawn to the extent of Rs. 1,000. In checking the items they find that they have omitted to give the bank credit of Rs. 200 for interest and charges, that two items for Rs. 900 and Rs. 350 paid to the bank in December, have not been credited until January, that three cheques of Rs. 1,500, Rs. 500 and Rs. 750 drawn in December have not been debited in the Pass Book until January.

What Journal entries will you make to put matters right? Prepare a Reconciliation Statement.

Ans. Balance as per Pass Book Rs 300.

**16.** On 31st December 1978, the Cash Book of Jain Iron Works showed an overdraft of Rs. 5,600. From the following particulars make out a Bank Reconciliation Statement.

(a) Cheques drawn but not cashed before 31st Dec. 1978 amounting to Rs. 3,946.

(b) Cheques paid into the bank but not collected and credited before 31st Dec., 1978 amounted to Rs. 4,891.

(c) A bill receivable for Rs. 520 previously discounted with the Bank had been dishonoured and debited in the Pass Book.

(*d*) Debit is made in the Pass Book for Rs. 120 on accouns of interest on overdraft and Rs. 55 on account of chequet for collecting bills.

(*e*) The bank has collected interest on investments and credited Rs. 760 in the Pass Book.

(*Delhi Senior School Certificate Exam. 1978.*)

**17.** Prepare a Bank Reconciliation Statement from the following particulars :

| | | Rs. |
|---|---|---|
| (*i*) | Overdraft as per Cash Book on 31st Dec., 1979 | 8,000 |
| (*ii*) | Cheques paid into the Bank but not cleared before 31st Dec., 1979. | 2,000 |
| (*iii*) | Cheques issued but not cashed by the customers prior to 31st Dec., 1979. | 1,200 |
| (*iv*) | Bank charges for the period. | 100 |
| (*iv*) | Interest on overdraft charged by the Bank. | 200 |
| (*vi*) | Interest on debentures collected by the Bank not shown in the Cash Book. | 500 |

**Ans.** Overdraft as per Pass Book Rs. 8,600.

**18.** From the following particulars ascertain the Bank Balance as would appear in the Pass Book of *X* as on 31st December, 1979 :—

1. The Bank Overdraft as per Cash Book on 31st December, 1979 was Rs. 6,000.
2. Interest on overdraft for 6 months ending 31st December, 1979 Rs. 200 is debited in the Pass Book.
3. Bank Charges for the above period as debited in the Pass Book amounted to Rs. 50.
4. Cheques issued, but not cashed prior to 31st December, amounted to Rs. 1,500.
5. Cheques paid into Bank but not cleared and credited before 31st December, 1979 were for Rs. 2,500.
6. Interest on investment collected by the Bankers Rs. 1,800.

**Ans.** Overdraft as per Pass Book Rs. 5,450.

**19.** From the following particulars prepare Bank Reconciliation Statement showing the balance as per Bank Pass Book on 31st Dec., 1979.

(*i*) The following cheques were paid into the firm's current account in December 1979 but were realised and credited by the bank in January, 1980 :

| | |
|---|---|
| (*a*) Sunil Agarwal | 202·50 |
| (*b*) Sunil Chaturvedi | 305·56 |
| (*c*) Sanjay Kumar | 191·94 |
| | Rs. 700·00 |

(*ii*) The following cheques were drawn by the firm in December, 1979 but were cashed by the creditors in January, 1980 :

| | |
|---|---|
| (*a*) Ashok Sharma | 417·44 |
| (*b*) Surendra Kumar | 564·69 |
| (*c*) Anil Kumar | 317·87 |
| | Rs. 1,300·00 |

(*iii*) A cheque for Rs. 100 which was received from a customer in full settlement of his account was entered into Bank A/c in the books of the firm in Nov., 1979 but the same was paid into the bank in January, 1980.

The bank account in the firm's ledger showed a debit balance of Rs. 19,900.

**Ans.** Balance as per Pass Book Rs. 20,400.

**20.** On 30th June, 1979, the Cash Book of Lala Ram Prasad showed a Bank Overdraft of Rs. 621. On comparing the Cash Book with the Pass Book the following differences were found :—

(*i*) Cheques amounting to Rs. 340 were deposited in the bank but were not collected.

(*ii*) Cheques amounting to Rs. 1,800 were issued but not yet presented for payment in the bank.

(*iii*) The Bank has allowed Rs. 50 for interest on deposits.

(*iv*) The Bank has charged Rs. 54 for sundry expenses and commission.

**Ans.** Balance as per Pass Book (Cr.) Rs. 835.

**21.** Prepare a Bank Reconciliation Statement from the following particulars :—

On 31st December 1979, I had an overdraft of Rs. 750 as shown by my Pass Book. I had issued cheques amounting to Rs. 250 of which Rs. 200 worth only seem to have been presented for payment ; Cheques amounting to Rs. 100 had been paid by me on 30th December, but of these only Rs. 75 were credited in the Pass Book ; I also find that a cheque for Rs. 10 which I had debited to Bank Account in my books has been omitted to be banked. There is a debit in my Pass Book of Rs. 25 for interest.

An entry of Rs. 30 of a payment by a customer direct into the Bank appears in the Pass Book. My Pass Book also shows a credit of Rs. 60 to my account for interest on investments collected by my bankers.

**Ans.** Overdraft as per Cash Book Rs. 830.

**22.** Prepare a Bank Reconciliation Statement from the following particulars :—

| | | Rs. |
|---|---|---|
| 1. | Overdraft as per Cash Book on 31st December, 1978. | 7,190 |
| 2. | Cheques paid into the Bank but not cleared before 31st December, 1978. | 2,210 |
| 3. | Cheques issued but not cashed by the customers Prior to 31st December, 1978. | 1,270 |
| 4. | B/R (discounted with the Bank) in November dishonoured on 31st December, 1978. | 600 |
| 5. | Bank charges for the above period. | 70 |
| 6. | Interest on Overdraft charged by the Bank. | 160 |

**Ans.** Overdraft as per Pass Book Rs. 8,960.

**23.** On 31st December, 1979 the Cash Book of Mr. Kartar Singh showed a balance of Rs. 1,000 at bank. He had sent cheques amounting to Rs. 10,000 to the bank before 31st December, 1979 but it was found from the Pass Book that cheques amounting to only Rs. 4,000 had been credited before that date. Similarly he had issued cheques worth Rs. 5,000 during the month of December out of which cheques worth Rs. 3,000 were presented before that date. The Bank had made payments amounting to Rs. 2,320 on 20th December according to Mr. Kartar Singh's standing instructions but no entry in respect of these had been made in the Cash book. The Pass Book showed a debit of Rs. 70 representing bank charges and Rs. 600 on the credit side paid by a customer direct into the bank on 30th December. There was no entry in the Cash Book for the payment and Bank charges.

Prepare the Bank Reconciliation Statement as on 31st December 1979.

**Ans.** Overdraft as per Pass Book Rs. 4,790.

**24.** From the following particulars extracted from the books of R. M. Mazumdar, prepare a Bank Reconciliation Statement showing the balance as per Bank Pass Book on 31st December, 1979.

The following cheques were paid into the firm's current account in December, 1979 but were credited by the bank in January, 1980. Shri P.C. Sood Rs. 2,500 ; Shri K. Achan Rs. 3,000, and Shri G. Menon Rs. 2,400.

The following cheques were issued by the firm in December

1979, but were credited in January, 1980 : J. X. Lobo Rs. 3,000, Shri M. M. Mehra Rs. 5,000 and Shri V. S. Desai Rs. 3,000.

A cheque for Rs. 1,000 which was received from a customer was entered in the bank column of the Cash Book in December, 1979 but remained lying and was paid into the bank in February, 1980.

The Pass Book shows a credit of Rs. 2,500 for Interest and a debit of Rs. 500 for Bank charges.

The balance as per Cash Book was Rs. 1,84,750 on 31st December, 1979.

Ans. Balance as per Pass Book Rs. 1,88,850.

**25.** Prepare Bank Reconciliation Statement from the following particulars.

(1) Balance as per Pass Book on 31st Dec., 1979 Rs. 10,266.

(2) Cheques drawn on 31st Dec., 1979 but not cleared till 3rd January, 1980, Rs. 10,212 ; Rs. 981 and Rs. 1,128

(3) Interest on Bank overdraft not entered in the Cash Book Rs. 1,510.

(4) Outstation cheques Rs. 21,000 lodged in the Bank on 13th Dec., 1979 but collected and credited in January 1980.

(5) A Hundi for Rs. 2,500 due on 31st Dec , 1979, was sent to the Bank for collection two days before and entered in the Cash Book forthwith, the proceeds were not credited in the Pass Book till 1st Jan., 1980.

(6) Rs. 100 for insurance premium paid by the Bank under a standing order on 31st Dec., 1979 had not been entered in the Cash Book.

While preparing the Bank Reconciliation Statement assume that you do not alter the Cash Book. Balance on 31st December, 1979, all correct entries being made in January, 1980.

Ans. Balance as per Cash Book Rs. 23,055.

**26.** On 31st December, 1979 my Pass Book showed an overdraft of Rs. 9,500. Out of cheques of Rs. 4,500 paid on 28th December, Rs. 2,000, appear to have been credited on 3rd January, 1980. Out of the cheques amounting to Rs. 8,000 issued during the month of December, cheques worth Rs. 4,500 appear to have been presented before 31st December, 1979. Inadvertently, the bank has credited a sum of Rs. 1,000 to my account which belonged to some other account. Interest on overdraft debited by bank was Rs. 500. This was subsequently entered by me in the book. My bank account showed a credit of Rs. 600 for interest on Securities collected by it.

Prepare a Reconciliation Statement as on 31st December, 1979.

Ans. Overdraft as per Cash Book Rs. 12,100.

27. On 31st December, 1979 the Cash Book of Basu showed an overdraft of Rs. 18,000 with the Bank of India Ltd. The balance did not agree with the balance as shown by the Bank Pass Book, and you find that Basu had paid into the Bank on 26th December four cheques for Rs. 10,000 ; Rs. 12,000 ; Rs. 6,000 and Rs. 8,000. Of these the cheque for Rs. 6,000 was credited by the bank in January, 1980. Basu had issued on 24th December three cheques for Rs. 15,000, Rs. 12,000, and Rs. 7,000. The first two cheques were presented to the bank for payment in December and the third in January, 1980.

You also find that on 31st December, 1979, the bank had debited Basu's Account for Rs. 500 for interest and Rs. 20 for charges but Basu has not recorded these accounts in his books.

You are required to prepare a Bank Reconciliation Statement as on 31st December, 1979 and ascertain the balance as per the Bank Pass Book.

Ans. Overdraft as per Pass Book Rs. 17,520.

28. On checking Shyam's Cash Book with the bank statement of his current account for the month of March, 1979 you find the following :—

(*i*) Cash book showed an overdraft of Rs. 4,500.

(*ii*) The payment side of the Cash Book has been undercast by Rs. 150.

(*iii*) A cheque for Rs. 750 drawn on his Savings Bank Account has been shown as drawn on Current Account.

(*iv*) Under instructions from Shyam the bank had transferred interest Rs. 900 from his deposits account to his current account on 4th April, 1979. The amount had, however, been taken in the Cash Book before March 31, 1979.

(*v*) Cheques amounting to Rs. 7,500 drawn and entered in the Cash Book had not been presented.

(*vi*) Cheques amounting to Rs. 6,000 sent to Bank for collection, though entered in the Cash Book, had not been credited by the bank.

(*vii*) Bank charges of Rs. 75 as per bank statement of account had not been taken in the Cash Book.

(*viii*) Dividend of the amount of Rs. 3,000 had been paid direct to the bank and not entered in the Cash Book.

(*ix*) A cheque issued to Ram for Rs. 200 was replaced when out of date. But it was entered in the Cash Book again and no other entry had been recorded. Both cheques were also included in the totals of cheques issued but not presented as shown above.

You are required to arrive at the balance as it would

appear in the bank statement as on March 31, 1979.

**Ans.** Overdraft as per Pass Book Rs. 375.

**Note** :—Amended balance of Cash Book—Overdraft Rs. 4,600.

9. Prepare a Bank Reconciliation Statement from the following particulars :—

| | | Rs. |
|---|---|---|
| 1. | Bank overdraft as per Cash Book. | 8,000 |
| 2. | Cheque deposited in bank but no entry was passed in the Cash Book | 300 |
| 3. | Cheque received but not sent to bank | 1,000 |
| 4. | Credit side of 'bank' column cast short | 100 |
| 5. | Insurance premium paid directly by bank under standing advice | 500 |
| 6. | Bank charges entered in Cash Book Twice | 10 |
| 7. | Cheques returned back but no entry passed | 400 |
| 8. | Cheques issued returned back on account of technical grounds | 300 |
| 9. | Bills directly collected by bank | 2,000 |
| 10. | Bank charges debited by bank | 12 |
| 11. | Cheques received entered twice | 500 |
| 12. | Bills discounted dishonoured | 4,000 |

State which items will require adjustment in the books of accounts.

**Ans.** Overdraft as per Pass Book Rs. 11,902.

**Note**—Except 2nd item all other items will require adjustment in the books of accounts.

10. Ascertain the balance that would appear in the Bank Reconciliation Statement of Sri N. K. Garg as on 31st December, 1979.

(*i*) Cheques paid into Bank, but not cleared before 31st December, 1979, were Rs. 1,085.

(*ii*) Bank has debited Rs. 2 as collection charges on outstation cheques but not entered in Cash Book.

(*iii*) Cheques issued but cashed after 31st December amounted to Rs. 1,500.

(*iv*) Dividend of Rs. 800 on shares collected directly by Bank not yet taken in Cash Book.

(*v*) As per standing instructions Bank has paid insurance premium of Rs. 300 but not yet entered in the Cash Book.

(*vi*) Bank overdraft as per Cash Book on 31st December was Rs. 3,500.

**Ans.** Overdraft as per Pass Book Rs. 2,587.

# 12

# Petty Cash Book

The Cashier will be put to a great inconvenience if all petty expenses are recorded in the Cash Book. Therefore, for these small expenses a separate book is kept which is called Petty Cash Book. This is a good method of saving the chief cashier from recording petty expenses.

**Recording in Petty Cash Book.** Every businessman has to incur many petty expenses apart from large expenses, *e.g.*, entertainment, Carriage, Postage, etc. If these petty expenses are entered in the Cash Book, it wastes the time and energy of the Chief Cashier. A Petty Cashier is appointed for this purpose. A fixed amount is given to him in the beginning of the month and if need arises for more amount the same can be given to him during the month at any time. This amount is determined keeping in view the nature of the business. The Petty Cashier meets all the petty expenses out of this fund. At the end of the month the Chief Cashier checks the account of the petty cashier and gives him the same amount, which he has spent during the previous month. Thus in the beginning of the next month the Petty Cashier has the same balance with him. Amount is given in advance under this system, so this system is called Imprest System of Petty Cash Book. Receipts are obtained for the expenses and if it is not possible to obtain the receipts, a voucher is prepared by the Petty Cashier and attested by an officer. Revenue Stamp should be affixed on vouchers for more than Rs. 20.

**Advantages of Petty Cash Book.** The following are the advantages of preparing a Petty Cash Book—

(1) *Saving of Time and Labour*—Petty expenses are recorded in Petty Cash Book. It saves the time and labour of the Chief Cashier.

(2) *Reduction in the number of transactions*—Petty expenses are written in the Petty Cash Book. It reduces the number of transactions in the Cash Book. The main Cash Book can be more easily totalled.

(3) *Check on Petty expenses*—The Chief Cashier can check the account of the Petty Cashier at any time and see that the funds are not misutilised in any way.

(4) *Saving in space*—Only the totals of petty expenses are recorded in cash book and also in ledger in various accounts. As such, lot of space is saved.

(5) *Convenience in preparing the Ledger A/cs*—Since only the totals are recorded, it is very convenient to post them into ledger. No unnecessary details are to be given

**Illustration 12-1**

Prepare Simple Petty Cash Book of Shri Santosh Kumar Gupta from the following particulars :

| 1980 | | Rs |
|---|---|---|
| Jan. | 1 Received Rs. 100 for petty cash | |
| ,, | 2 Paid for Wages | 5 |
| ,, | 3 Paid for Conveyance | 3 |
| ,, | 6 Paid for Postage | 8 |
| ,, | 13 Paid for Stationery | 7 |
| ,, | 15 Paid for Travelling expenses | 15 |
| ,, | 20 Paid for Advertisement | 8 |
| ,, | 30 Paid for Carriage | 3 |

SIMPLE PETTY CASH BOOK OF SHRI SANTOSH KUMAR GUPTA

| Date | Particulars | Receipts | L.F. | Payments |
|---|---|---|---|---|
| 1980 | | Rs. | | Rs. |
| Jan. 1 | To Cash A/c | 100 | | |
| ,, 2 | By Wages A/c | | | 5 |
| ,, 3 | ,, Conveyance A/c | | | 3 |
| ,, 6 | ,, Postage A/c | | | 8 |
| ,, 13 | ,, Stationery A/c | | | 7 |
| ,, 15 | ,, Travelling expenses A/c | | | 15 |
| ,, 20 | ,, Advertisement A/c | | | 8 |
| ,, 30 | ,, Carriage A/c | | | |
| ,, 31 | ,, Balance c/d | | | 513 |
| | | 100 | | 100 |
| Feb. 1 | To Balance b/d | 51 | | |
| ,, ,, | ,, Cash A/c | 49 | | |

## Columnar Petty Cash Book

In this Cash Book a separate column is provided for each expense. So it is called Columnar Petty Cash Book. Number of columns depend upon the nature of business. A small business needs lesser number of columns while a big business will need more columns. At the end of each column there is a column for totalling. This is also called Analytical Petty Cash Book. Those expenses that are not entered in any column are entered in Sundries Column. A specimen of a Columnar Petty Cash Book is given on the next page :

## COLUMNAR PETTY CASH BOOK OF SHRI SANTOSH KUMAR GUPTA

| Date | Particulars | L.F. | Receipts | V. No. | Total Payments | Postage & Telegrams | Cartage & Carriage | Printing & Advt. | Travelling Expenses | Stationery | Wages | Sundries |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1980 | | | Rs. | | Rs. | Rs. | Rs. | Rs. | Rs | Rs. | Rs. | Rs. |
| Jan. 1 | To Cash A/c | | 100·00 | | | | | | | | | |
| ,, 2 | By Wages A/c | | | | 5 | | | | | | 5 | |
| ,, 3 | By Conveyance A/c | | | | 3 | | | | | | | |
| ,, 6 | By Postage A/c | | | | 8 | 8 | | | | | | |
| ,, 13 | By Stationery A/c | | | | 7 | | | | | 7 | | |
| ,, 15 | By Travelling Expenses A/c | | | | 15 | | | | 15 | | | |
| ,, 20 | By Advertisement A/c | | | | 8 | | | 8 | | | | |
| ,, 30 | By Cartage A/c | | | | 3 | | 3 | | | | | |
| | | | | | 49 | 8 | 3 | 8 | 15 | 7 | 5 | 3 |
| ,, 31 | By Balance c/d | | | | 51 | | | | | | | |
| | | | 100·00 | | 100·00 | | | | | | | |
| Feb. 1 | To Balance b/d | | 51·00 | | | | | | | | | |
| ,, ,, | ,, Cash A/c | | 49·00 | | | | | | | | | |

**Note.** Various petty expenses are recorded in their own columns. Those which have no separate column are recorded under sundries. Conveyance is the example in this illustration.

**Posting of Petty Cash Book in Ledger**

Petty cash book is treated in two different ways, and system of posting in ledger differ accordingly. The two ways of treating petty cash book are as under.

1 **Petty Cash Book as a part of Double Entry System or as Journal.** Under this procedure petty cash book is considered as a subsidiary book and part of double entry system As such petty cash book is treated as an independent account and a part of Journal or double entry procedure. When the head cashier gives advance to the petty cashier, petty cash book is debited and main cash book is credited. All these accounts under which the petty cashier makes the payment are recorded on the credit side of petty cash book under various heads of nominal accounts, the total of which are debited in ledger at the end of the month. When the head cashier pays to the petty cashier, the first entry is repeated, *viz* , petty cash book is debited and main cash book is credited.

Under this system petty cash book is considered to be a part of the main cash book and just as cash A/c is not opened in ledger similarly petty cash A/c is also not opened While closing the accounts the balance of petty cash is added with the cash in hand.

The entries will thus be recorded as under :

1. On receiving the advance from the Cashier :

Petty Cash Book Dr.

To Main Cash Book

2. When expenses have been incurred and the same is posted into ledger :

Expenses A/c Dr.

To Petty Cash Book.

2. **Petty Cash Book as a Memorandum Book.** If transactions are recorded only for memory's sake, they are called memorandum and do not become a part of double entry system. Likewise when petty cash book is maintained only for purpose of remembering such transactions. it does not become an essential part of double entry system, nor it is considered as a subsidiary book.

When cash is advanced to the petty cashier, then petty cash A/c is debited and main cash book is credited. In this way double entry is completed. In actual practice, however, petty cash book is debited, and this is done just for the sake of remembering. Again, when the petty cashier receives all what he has spent on various petty expenses, and thus his cash balance becomes the same as it was in the beginning, all the petty expenses accounts are debited and main cash book is credited. The balance of the petty cashier is not cared for, though this is also shown in the balance sheet.

At the end of a week or a month, a journal entry is passed with the total of all the various petty expenses accounts, which are debited and petty cash A/c is credited. This way the petty cash book

remains only as a memorandum book. This journal entry for this under our illustration earlier will be like this :

| | | | | |
|---|---|---|---|---|
| 1980 Jan. 31 | Postage & Telegrams A/c | Dr. | 8 | |
| | Cartage & Carriage A/c | Dr. | 3 | |
| | Printing & Advertising A/c | Dr. | 8 | |
| | Travelling Expenses A/c | Dr. | 15 | |
| | Stationery A/c | Dr. | 7 | |
| | Wages A/c | Dr. | 5 | |
| | Sundries A/c | Dr. | 3 | |
| | To Petty Cash A/c | | | 49 |
| | (For amount Spent as per Petty Cash Book) | | | |

When the petty cashier is reimbursed the amount then, the following Journal entry will be passed :—

Petty Cash A/c Dr. 49

To Cash A/c 49

When petty cash book is used only as a memorandum book then, the following points must be kept in mind.

(i) No column for Ledger folio is maintained in petty cash book.

(ii) No ledger posting in respect of petty expenses will be made directly. It will be done through a Journal entry.

(iii) Petty Cash A/c will be opened in Ledger. When advance is received, it will be debited and main cash book will be credited.

(iv) All the nominal A/cs, *viz.*, accounts for petty expenses will be debited and the petty cash A/c will be credited through a Journal entry.

(v) When the amount spent by petty cashier is reimbursed to him the first entry will be repeated *i.e.* Petty Cash A/c will be debited and cash book will be credited.

Thus under the above procedure the petty cash book becomes just a memorandum book and does not affect the double entry system. Even when it is closed down it will not affect the double entry procedures. Under the above arrangement the position of the various A/cs in Ledger will be as under :

**Postage & Telegrams A/c**

| | |
|---|---|
| To Petty Cash A/c 8 | |

**Cartage & Carriage A/c**

| | |
|---|---|
| To Petty Cash A/c 3 | |

**Printing & Advertisement A/c**

| | |
|---|---|
| To Petty Cash A/c 8 | |

**Travelling Expenses A/c**

| | |
|---|---|
| To Petty Cash A/c 15 | |

**Stationery A/c**

| | |
|---|---|
| To Petty Cash A/c 7 | |

**Wages A/c**

| | |
|---|---|
| To Petty Case A/c 5 | |

**Sundry Expenses A/c**

| | |
|---|---|
| To Petty Cash A/c 3 | |

*Dr.* **PETTY CASH ACCOUNT** *Cr.*

| Date | Particuars | Folio | Amount | Date | Particulars | Folio | Amount |
|---|---|---|---|---|---|---|---|
| 1980 | | | Rs. | 1980 | | | Rs. |
| Jan. 1 | To Cash | | 100 | Jan 31 | By Wages A/c | | 5 |
| | | | | ,, ,, | ,, Conveyance A/c | | 3 |
| | | | | ,, ,, | , Postage A/c | | 8 |
| | | | | ,, ,, | ,, Stationery A/c | | 7 |
| | | | | ,, ,, | ,, Travelling Expenses A/c | | 15 |
| | | | | ,, ,, | ,, Advertisement A/c | | 8 |
| | | | | ,, ,, | ,, Carriage A/c | | 3 |
| | | | | ,, ,, | ,, Balance c/d | | 51 |
| | | | 100 | | | | 100 |
| Feb. 1 | To Balance b/d | | 51 | | | | |
| ,, ,, | To Cash | | 49 | | | | |

**Standard Questions**

1. Explain the imprest system of Petty Cash Book.
*(D.S.S.C. Exam. 1979, 1980 Comptt.)*

2. What is the difference between Petty Cash Book as a Journal & Petty Cash Book as a memorandum.

3. What is the differenee between Petty Cash Book as a Journal & Petty Cash Book as a memorandum.

4. When Petty Cash Book is kept as a memorandum which account in the ledger is debited for money advanced by the Head Cashier to Petty Cashier ?
*(D.S S.C. Exam. 1978)*

**Practical**

1. Prepare the Petty Cash Book of Shree Mahavir Book Depot from the following particulars :

| | | | Rs. |
|---|---|---|---|
| 1981 | | | |
| Jan. | 1 | Received from Cashier | 50·00 |
| ,, | 3 | Paid for Postage | 1·50 |
| ,, | 6 | ,, ,, Match Box 1 Doz. | 2·50 |
| ,, | 9 | ,, ,, Stationery | 2·30 |
| ,, | 13 | ,, ,, Telegram | 3·40 |
| ,, | 18 | ,, ,, Cartage | 2·50 |
| ,, | 25 | ,, ,, Sundry Expenses | 3·10 |

Ans. Balance Rs. 34·70

2. From the undermentioned transactions write out Petty Cash Book of Shri Sunil Kumar Chaturvedi :

| | | | Rs. |
|---|---|---|---|
| 1980 | | | |
| Feb. | 1 | Balance Rs. 49·50, received from Cashier | 50·50 |
| ,, | 3 | Cartage | 4·00 |
| ,, | 12 | Travelling Expenses | 5·50 |
| ,, | 13 | Ruber Stamp | 7·00 |
| ,, | 18 | Gum | 2·50 |
| ,, | 27 | Postage | 3·50 |
| ,, | 28 | Freight | 5·50 |
| ,, | ,, | Office Staff had a tea at a cost of | 5·60 |

Ans. Balance Rs. 66·40.

3. Enter the following transactions in a Petty Cash Book with analytical columns. The Petty cashier is given an imprest amount of Rs. 100 on 1st January and is paid the total amount of his expenses at the end of the fortnight.

| | | | Rs. |
|---|---|---|---|
| 1980 | | | |
| Jan. | 1 | Purchased Postage stamps | 5 |
| ,, | 5 | Paid for window cleaning | 2 |
| ,, | 5 | Paid wages to office cleaner | 10 |
| ,, | 6 | Paid for two pencils | 1 |
| ,, | 8 | Paid conveyance to office clerk | 12 |
| ,, | 10 | Paid for Ink and letter paper | 2 |
| ,, | 12 | Paid for printing charges | 3 |
| ,, | 14 | Paid taxi fare to manager | 2 |
| ,, | 15 | Paid for telegram charges | 2 |
| ,, | 15 | Paid advance to office peon Gopal | 10 |

You are also required to pass necessary journal entry to incorporate the above transactions.

Ans. Balance in hand Rs. 51·00

4. Enter the following transactions in the Columnar Petty Cash Book of Shri Shiv Kumar :—

| | | | Rs. |
|---|---|---|---|
| 1980 | | | |
| Jan. | 1 | Received from the Cashier a cheque | |

| | | | Rs. |
|---|---|---|---|
| | | which was cashed for Rs. 35·00 the amount required to make up the imprest amount | 60·00 |
| Jan. | 3 | Paid for charity | 5·30 |
| ,, | 4 | Paid for stationery | 3·20 |
| ,, | 10 | Paid Hari for wages | 5·50 |
| ,, | 12 | Paid for telegram | 2·50 |
| ,, | 13 | Paid for advertisement | 3·25 |
| ,, | 15 | Paid for telephone call | 2·25 |
| ,, | 18 | Paid for coolie hire | 1·50 |
| ,, | 20 | Paid for printing charges | 2·30 |
| ,, | 21 | Paid for freight | 1·50 |
| ,, | 24 | Paid for conveyance | 1·25 |
| ,, | 25 | Paid for cartage | 1·12 |
| ,, | 28 | Paid for cartage | 2·12 |
| ,, | 29 | Paid for postage | 3·50 |
| ,, | 31 | Paid for charity | 8·00 |

**Ans.** Cash Balance Rs. 16.71

**Note** :— Cash in hand on Jan. 1, 1980 Rs. 60—Rs. 35=Rs. 25.

5. Enter the following transactions in Columnar Petty Cash Book maintained on Imprest System :

| 1980 | | | Rs. |
|---|---|---|---|
| June | 1 | Received from Chief Cashier | 200·00 |
| ,, | 1 | Paid Conveyance charges to clerk | 12·30 |
| ,, | 2 | Bought Postage Stamps | 20·00 |
| ,, | 3 | Paid Coolie and Cartage expenses | 5·50 |
| ,, | 5 | Paid Telephone Bill for May | 42·00 |
| ,, | 7 | Cost of Newspapers | 7·62 |
| ,, | 10 | Paid Liftman and Watchman | 4·00 |
| ,, | 15 | Paid Sweeper for May | 10·00 |
| ,, | 25 | Paid Bhatt for Supplying tea | 32·00 |
| ,, | 27 | Paid Petrol Bill of Express Auto | 45·00 |
| ,, | 30 | Revenue stamps purchased | 5·00 |
| ,, | ,, | Paid washing charges to peon | 3·00 |

Show also what amount will be paid to the Petty Cash at the end of the month, when Petty Cash Book is maintained on Imprest system.

**Ans.** Balance in hand Rs. 13·58.

6. The following transactions took place during the week ending 28th of May, 1980. How will you record them in the Petty Cash Book (as memorandum) which is maintained with a weekly 'float' of Rs. 30 ?

| 1980 | | | Rs. |
|---|---|---|---|
| May | 23 | Postage | 4·00 |
| ,, | 24 | Casual labour | 5·00 |
| ,, | 25 | Taxi hire | 6·00 |
| ,, | 26 | Writing pads and Registers | 8·00 |
| ,, | 27 | Cartage | 2·00 |
| ,, | 28 | Bus fare | 2·00 |

[*Delhi Senior School Certificate Exam., 1978* (C)]

7. Insert the following transactions in a Tabular Petty Cash Book.

| 1980 | | | Rs. |
|---|---|---|---|
| Jan. | 1 | Received from cashier | 100·00 |
| ,, | 2 | Postage | 1·75 |
| ,, | 4 | Printing | 3 00 |
| ,, | 5 | Wages | 0·25 |
| ,, | 6 | Sweeper's wages | 2·12 |
| ,, | 7 | Tonga hire | 0·25 |
| ,, | 8 | Thela hire | 0·50 |
| ,, | 10 | Ink | 0·37 |
| ,, | 12 | Telegram | 1·50 |
| ,, | 15 | Tips | 0·25 |
| ,, | 18 | Railway freight | 3·50 |
| ,, | 21 | Stamps | 7·12 |
| ,, | 22 | Paid for a trunk call | 2·25 |
| ,, | 26 | Advertisement | 1·75 |
| ,, | 28 | Purchased packing material | 2·50 |
| ,, | 31 | Purchased pens | 1·[illegible]0 |

**Ans.** Cash Balance Rs. 71·39

8. **Rule a form of Petty Cash Book containing analytical columns for the following kinds of Petty Cash Expenditure:—**

**Stationery, Postage and Telegrams, Carriage, Travelling expenses, together with a column for Miscellaneous payments. Bring down the balance in hand at the conclusion.**

| 1980 | | | Rs. |
|---|---|---|---|
| May | 1 | Received cheque from the cashier for starting balance and cashing the same | 50·00 |
| ,, | 1 | Paid for postage | 0 22 |
| ,, | 2 | Telegrams to Bombay | 2·50 |
| ,, | 2 | Electric Light bill of March | 5·44 |
| ,, | 4 | Cleaning charges | 1·12 |
| ,, | 5 | Charges for fire | 0·62 |
| ,, | 6 | Railway fare to Asansol | 3·00 |
| ,, | 7 | Carriage to samples | 0·78 |
| ,, | 8 | Postage | 0·62 |
| ,, | 9 | Telegrams to Madras | 1·00 |
| ,, | 10 | New filing cabinet (Delhi Office furniture A/c) | 20·00 |
| ,, | 11 | Bus Fares | 0·37 |
| ,, | 15 | Type-writing paper | 0·53 |
| ,, | 20 | Received cash from cashier | 200·00 |
| ,, | 20 | New Type-writer (Delhi Office furniture A/c) | 125·00 |
| ,, | 21 | Paid for postage | 7·85 |
| ,, | 22 | ,, ,, ,, | 3·87 |
| ,, | 22 | Railway fare to Dacca | 14.94 |

[Hint:—Total Expenditure Rs. 187.86]

**Ans.** Balance Rs. 62·14.

9. **Record the following transactions in the Petty Cash Book :—**

**On 1st January Rs. 100 is given to the petty cash clerk, who made the following payments :—**

| | | | Rs. | | | | Rs. |
|---|---|---|---|---|---|---|---|
| Jan. | 2 | Stationery | 2·50 | Jan. | 24 | Telegrms | 3·25 |
| „ | 2 | Postage | 3·75 | „ | „ | Taxi hire | 1·25 |
| „ | 2 | Printing | 10·00 | „ | 25 | Printing | 5·00 |
| „ | 7 | Taxi hire | 2·25 | „ | „ | Cartage | 4·50 |
| „ | „ | Coolie charges | 3·50 | „ | 27 | Postage | 3·25 |
| „ | „ | Telegram | 2·25 | „ | „ | Railway freight | 12·50 |
| „ | 12 | Cartage | 1·75 | „ | „ | Watchman's wages | 20·00 |
| „ | 12 | Ink | 2·62 | | | | |
| „ | „ | Tips | 2·50 | „ | „ | Sweeper's Wages | 20·00 |
| „ | 20 | Soap | 1·12 | | | | |
| „ | „ | Coolie charges | 2·25 | | | | |

**Ans.** Cash Balance Rs. 3·76.

# 13

# Measurement of Business Income

Business whether big or small, is done with the object of earning profit. The owner of the business prepares a Profit and Loss A/c or an Income Statement to find out his profit. Not only the owner of the business is interested in the income of the business but also the creditors, investors, bankers, income-tax officers, labourers and prospective investors. Determination of business income or profit is not at all a simple task but rather the most complex and frustrating in accounting, largely because different bases yield widely different incomes. In this connection two main questions arise :

(*i*) What is profit or income ?

(*ii*) How to find the accurate profit ?

**Definition of Income.** Income is the favourable change in wealth which results from business operation. For this purpose we see the value of assets in the beginning of the year and compare it with the value at the end of the year when we want to know the profit. According to Smith, "Net income for the period is the excess of revenues realised during the period by a specific accounting entity over the cost expired (including losses) during the same period."

**Why is Income Statement Compulsory ?** Success of the business can be known by the net business results during the accounting year. For this purpose, Profit and Loss Account is prepared. In India and England it is prepared in the form of an account and in America it is prepared in the form of a statement and is called Income Statement. Some of its definitions are given below :

*Paton and Paton*—The income statement (sometimes referred to as the Profit and Loss Statement) may be defined as any systematic array of the revenues, expenses and other deductions and net income of a business enterprise for a stated period.

In this connection *Robert Anthony* says, "The Statement which presents in brief the incomes, expenses and their difference is called Profit and Loss Statement, or Statement of earnings or Statement of Operation.

**Matching Cost and Revenue.** It has already been mentioned that any increase in the owner's capital due to business operation is called Revenue and the cost of goods and Services incurred in the earning of this revenue is called Expense. Such expenses which do not result in any profit of the business are called Losses. Thus profit is the result of the following two factors—

(*i*) Revenue ; and

(*ii*) Expenses and losses.

Income indicates increase in profit of the business and expenses indicate the loss. Thus if the income increases, the profit also increases, and if the expenses increases the loss also increases. Thus in order to measure the income of the business both revenues and expenses have to be matched. The difference between these two shows the Net Profit or Net Loss. The difference shows the net profit if the revenue is more than expenses and losses, the result shows a net loss if the expenses and losses are more than revenue. The net profit or net loss of the business is borne by the owners of the business. Thus the net profit of business directly affects the capital of the businessman. Net profit increases his capital and net loss decreases it. Thus those transactions which do not affect the capital of the businessman are not concerned with the profit of the business. This point can be further clarified with the help of the following examples :

(1) **Purchased goods worth Rs. 1,000.** This transaction affects the goods and cash. The stock of goods will increase and cash will decrease. But the capital of the businessman will remain unaffected because neither it is an expense nor a revenue. Both the aspects of this transaction are concerned with the increase or decrease of the assets.

(2) **Received Rs. 2,000 from the Debtors.** This transaction increases an asset on the one hand and decreases the Debtors on the other hand. Thus the capital remains unaffected.

(3) **Taken a Loan of Rs. 5,000 from the Bank.** This transaction also does not affect the capital of the businessman. On the one hand cash will increase and on the other hand Bank Loan will increase in the Balance Sheet.

(4) **Paid Rs. 1,000 to the Creditors.** This transaction will also not affect the capital of the business because it will reduce the Creditors on the one hand and Cash Balance on the otherhand.

(5) **Purchased Goods on Credit for Rs. 3,000.** This transaction will on the one hand increase the stock of goods and the creditors on the other. Thus capital will remain unaffected.

(6) **Sold Goods for Rs. 450 Worth Rs. 300.** When the businessman sells goods on profit it affects his capital. The analysis of this transaction will show that by selling goods, Cash Balance will increase by Rs. 450 and on the other hand goods worth Rs. 300 will be reduced. Thereby the capital will be increased by Rs. 150. Thus Rs. 450 – Rs. 300 = Rs. 150 is the profit of the business.

**Importance of the Accounting year**—Accounting year has a special importance in the calculation of business income. The businessman cannot wait for the profit till the end of the business. A particular period is assumed as accounting year. Generally, a period

of 12 months is taken as ideal period for the accounting year. Incomes and revenues of this period are matched with each other.

**Measurement of Revenue**

For Finding out the profit of the business, expenses are matched with the revenue and not that the revenue is matched with the expenses. This is why that we first calculate the income and then the expenses are matched with this income. All those costs that have not yet expired (*ie.*, unexpired costs) are deducted from the total cost and are shown on the assets side of the Balance Sheet because these are assets as long as these do not expire. When the income relating to this unexpired cost is received it is treated as an expense. Therefore, we have to see first of all whether the income has been received or not. Following two problems are faced at the time of calculation of the annual incomes :

(1) **Income and Cash receipts are not the same.** An amount earned in a particular year is the income of that year. It is not always necessary that an income earned in a particular year is received also in that particular year. There are many examples in the business where an income is earned in a year but not received in that year. Sometimes an income is received but not earned in that year, *e.g.*, rent or interest received in advance. Thus income and cash receipts are two different things. So it is not necessary that all cash receipts are income.

(2) **When is income considered received.** Generally, revenue is considered as being realised in that period in which goods or services are furnished to the customers in exchange for cash or some other valuable consideration.

The accountant believes that an income is deemed to be earned when it is received. It is taken to be that date when goods or services are given to the customers for cash or any other consideration. Following points should be kept in mind in this connection :

(*i*) **Physical goods.** With regard to physical goods income is not supposed to have been earned when it is produced nor when its order is received nor when signed on the contract for sale but it is supposed to be earned when the goods are loaded on the ship or the delivery is handed over to the buyer.

(*ii*) **Services.** With regard to services the income is supposed to have been earned when the services are rendered.

**Main Exceptions**

(1) **Gold Mines.** Because the price of gold is fixed, the gold taken out in a particular year is taken as the income of that year.

(2) **Long-term contracts.** In case of long-term contracts it is difficult to postpone the revenue till the completion of full contract In such case proportionate amount of revenue representing the part, of contract completed by the end of the year is realised even before the completion of the contract.

(3) **Uncertainty.** In case of uncertainty, revenue is not considered as being realised even when goods are despatched to

customers. For example, in instalment sale when seller has a doubt on buyers' intentions of fulfilling the full contract, he considers only a part of the total revenue as realised. This is normally in the ratio that instalments received bear to total instalments.

**Expenses and Losses.** For profit calculation expenses and losses are matched against the revenues of the same period. In this connection we face two problems—

(*i*) What criteria shall be used as a basis for association costs with present future periods ?

(*ii*) How shall the expiration of cost (expenses) and losses be measured ?

**Criteria for Matching.** For this purpose expenses and losses are divided into the following three categories :

(*i*) Direct cost; (*ii*) Indirect cost; and (*iii*) Losses.

(1) **Direct Cost.** Direct material and direct labour used in the production of certain goods is called direct cost. These expenses can be easily identified when the revenue takes place. For example, when goods are sold, the sacrifice of material and labour can be conveniently determined. If sale is treated to be the revenue of a particular period, the related cost of material and labour can also be matched against the revenue of that period. Although, there are many methods of invoicing the material, yet first-in, first-out (Fifo) method is supposed to be the first.

(2) **Indirect costs.** These costs cannot be identified with a specific revenue. Indirect costs relate to a particular period and can be matched with the revenue of that period. At the end of financial period if it is felt that some portion of these indirect costs relate to future revenue then that portion of these costs is to be matched against the present revenue.

(3) **Losses.** Losses are those costs which fail to produceany revenue. These can also be matched with revenue. The same criterion which was applied for indirect expenses is applied here. Since losses have no potentials for producing the revenue in the future they are deferred.

**Measurement of Cost.** With regard to measurement of cost there are two views :

1. **Traditional Approach.** According to this approach the market value of the goods is not taken into consideration and their price is determined on the basis of their original cost or cost price. The expenses based on the original cost are matched with revenues. For example—

(*i*) A businessman purchased in the preceding year at Rs. 80 is sold in the current year at Rs. 100. Here expenses of Rs. 80 will be matched with the revenue of Rs. 100. The current purchase price of the goods sold at the time the sale is affected is not considered because it is not actually paid.

(*ii*) Although there are many assets whose value increases or decreases from time to time, yet the depreciation on the fixed assets is charged on the book value of the assets irrespective of their market value.

**Criticism.** This approach is criticised on the following grounds :

(*i*) **More importance to the current price than market price.** The market value is determined on the basis of current bargaining between the buyers and suppliers. Thus market value is a more objective than the original cost price.

(*ii*) **The purchasing power of money is not definite.** The purchasing power of money changes from time to time. Therefore, this principle is useful only when goods purchased are immediately sold.

Although traditional approach is good from the point of view of accountancy yet it cannot be called reasonable from the point of view of management because under this method the credit of management is not given to the right person. The management has to decide who should be rewarded for the success of a particular work or who is responsible for the failure of that work. But they cannot make a reasonable decision if this method is followed. For example, goods worth Rs. 80 were sold for Rs. 100, there is profit of Rs. 20. But if the present cost of the goods sold is Rs. 90, the real profit is only Rs. 10 and not Rs. 20.

2. **Replacement Value approach.** Accountants following this approach believe that replacement expenses and not the preliminary expenses should be matched with the revenue. "The difference between the replacement value allocated against revenue and the original carrying value of product and service factors given up should be designated with the income statement and 'realised' gains or losses from market fluctuations and price level changes.

(*a*) **Trading A/c under Traditional Approach Method**

TRADING ACCOUNT

| | | | |
|---|---|---|---|
| Cost of Goods sold | 80 | Sale of goods | 100 |
| Profit | 20 | | |
| | 100 | | 100 |

(*b*) **Trading A/c under Replacement Value Approach**

TRADING ACCOUNT

| | | | |
|---|---|---|---|
| Cost of Goods sold | 90 | Sale of Goods | 100 |
| Profit | 20 | Realised gains from market fluctuations & price level changes | 10 |
| | 110 | | 110 |

Replacement value approach is better than the traditional method approach It not only reveals the same profit as disclosed by the traditional approach but also gives an additional information regarding the profit or loss due to price fluctuations and price level changes.

**Determination of Income**

Determination of income is the main problem of accountancy. The Accountant can compare the position of a business with its last year's position only by its income. The net income is determined for an assumed period of 12 months. This period of 12 months is suitable for comparison purpose. Owner of the business, creditors, investors, government officers, employees and prospective investors are equally interested in the income of the business. All schemes of income measurement start with the idea that the net income is the difference between gains and losses or income and expenses or revenues and costs.

**Methods of Determination of Income**

(1) **Cash Basis.** Under this method income is equivalent to cash received, expense is equivalent to cash paid. Thus it is clear that the cash received in a specified period is the income of that period and the cash paid is the expense of that period. So the difference between the cash received and cash paid is the profi. If an amount related to that particular period is not received within that period, it is not considered,as the income of that period. Atdditional capital employed by the owner or borrowed from the creditors is also not considered as the income of that period.

This method is very easy. So many persons favour it. Although it is followed by small traders, doctors, lawyers and others yet this method is good under following circumstances :

(*i*) When the business has only current assets and not fixed assets.

(*ii*) When all the transactions are for cash.

(*iii*) When all the receipts of a particular periods are realised in that very period, *i.e* , there are no advance receipts or earned revenues.

(*iv*) The expenses should also be paid in that period, *i e*., there are no prepaid expenses.

(*v*) There should also be no opening or closing stock.

This method cannot be treated as a scientific method because the conditions mentioned above are not found in actual practice. So this method is not practicable.

(2) **Accrual Basis.** This is more practicable and scientific system. To find out income under this method, accrued revenues during a period are matched with accrued expenses. For the determination of the period of receipt, the criterion is to see in which period it has accrued and not the period in which it has been received. Similarly, the expenses are also determined on the same basis. We have to see the period to which they are related and not the

period in which they are paid. In other words we can say that expenses recognised not when a disbursement is made, but when a cost expires or is consumed in the creation of revenues. Revenue is recognised, as a general rule, at the time services are performed or goods are supplied to customers, not when cash is received. Thus we can say that under this system revenues are calculated on 'accrual basis and are calculated on 'cost expiration' basis. Here it should also be mentioned that all the revenues and expenses should be related to the same accounting period and the same production unit or department.

Under this system before determining income all the necessary adjustments regarding revenues and expenses should also be made. It has already been mentioned as to how revenues and expenses are matched.

**Illustration 13-1**

Mr. Rose started a business with a capital of Rs. 35,000. He paid Rs. 4,800 who'e year's rent in advance and engaged an accountant on a monthly salary of Rs. 500 to be paid on the 5th of the following month. He borrowed Rs. 3,000 from Mr. Pink and paid him 4 months interest at the rate of 3% per mensam in advance. During the final quarter he made a gross profit of Rs. 7,000. Find out the profit of the above mentioned period if he uses—

(*i*) Cash Basis ; and (*ii*) Accural basis of accounting.

**Solution**

(*i*) **Cash Basis**

PROFIT AND LOSS ACCOUNT
*For the quarter ending on—*

| | Rs. | | Rs. |
|---|---|---|---|
| To Rent | 4,800 | By Gross Profit | 7,000 |
| To Salary (only 2 months salary has been paid) | 1,000 | | |
| To Interest on Loan | 360 | | |
| To Net Profit | 840 | | |
| | 7,000 | | 7,000 |

(*ii*) **Accrual Basis**

PROFIT AND LOSS ACCOUNT
*For the quarter ending on—*

| | Rs. | | Rs. |
|---|---|---|---|
| To Rent (3 months) | 1,200 | By Gross Profit | 7,000 |
| To Salaries (3 months) | 1,500 | | |
| To Interest on Loan (3 months) | 270 | | |
| To Net Profit | 4,030 | | |
| | 7,000 | | 7,000 |

Those businessmen who prepare their accounts on Accrual Basis have to take into consideration the following :—

1. **Accruals and Deferrals :**

(*i*) Outstanding or Accrued expenses payable.

(*ii*) Accrued or outstanding income or income received in advance.

(*iii*) Deferred or prepaid expenses or expenses paid in advance.

(*iv*) Deferred income or income received in advance or unearned income.

2. Cost expiration or Depreciation.

3. Bad Debts.

4. Closing inventory.

**Changes in the basis of Accountancy**

When accounts are changed from cash basis to accrual basis, following adjustments[1] are necessary :

(1) Outstanding expenses ; (2) Prepaid expenses ; (3) Depreciation ; (4) Stock-in-trade ; (5) Accrued income ; (6) Income received in advance; (7) Provision for Bad and doubtful debts ; (8) Reserve for discount on creditors and debtors.

**Causes of Increase or Decrease in Percentage of Gross Profit**

Net profit is very much affected by the gross profit When the gross profit is high it is expected that the net profit will also be high. Thus it is more advisable to find out the percentage increase and decrease in the gross profit than the net profit.

**Causes of Percentage Increase in Gross Profit.** Following are the possible causes of percentage increase in gross profit :

1. When the cost price of the goods is less but the sale price is equal to or more than that of the last year.

2. When the goods once sold are recorded twice in the account books.

3. Goods purchased have not been recorded in the account books but it has been included in the closing stock.

4. When the closing stock has been overvalued.

5. When the closing stock has been undervalued.

6. When goods sent on consignment has been included in the sale and unsold stock both.

**Causes of Percentage Decrease in Gross Profit.** Following can be the causes of percentage decrease in the gross profit.

1. Purchases are recorded twice.

---

[1] These adjustments have been discussed in detail in the chapter on 'Final Accounts'.

2. Goods purchased have not been received and also not included in the closing stock.

3. Closing stock is under-valued.

4. Some of the amount received from sale is not recorded.

5. Certain goods sold are not at all recorded although the same has been delivered.

6. Goods purchased for personal use of the businessman have been recorded in the Purchases A/c.

7. Sales do not increase in proportion to the cost.

**Clo.ing Inventory or Stock**

Every businessman, whether he is a trader or a manufacturer always has something left over at the end of the accounting period. The total goods manufactured or purchased are not sold off. Whereas a trader normally has the stock of unsold finished goods, a manufacturer has the stock of finished goods, semi-finished goods (work-in-progress) and raw materials. In addition the manufacturer also has the stock of his stores which he uses for production purposes, like, coal, machine oils, chemicals, gas, etc. Stock in hand for a manufacturer includes all these things.

Calculating the cost of stock in hand is a serious job and done by competent persons. In order to know the accurate profit, it is essential that the value of this remaining stock is properly assessed. It should neither be over-valued nor under-valued.

**The Principle of Valuation**

While calculating the value of closing stock (stock in hand at the close of the accounting period) the basic principle, *i.e*, if the market price seems to be more than the actual cost and to calculate it at market rate would lead to additional profit, it should be calculated at cost price. However, if the market rate has gone down and calculating on the basis of it would result in loss, then the value should be calculated at market rates. In brief the valuation should be at the lower rates. That is the closing stock should be valued at cost price or replacement price or market price, whichever is less. As for example, cost price of the stock is presumed to be Rs. 5,000. If it is bought it would cost say Rs. 6,500 and further presume, that it can be sold for Rs. 7,000. In such a case valuation will be made as Rs. 5,000. Now further suppose that the costs were Rs. 3,000. In such a case it would be valued at Rs. 6,500 which is the cost of its replacement.

The valuation is made by two methods. First a list or inventory is made which includes all the items of stock in hand at a replacement price and the market price. Under the second method, the cost price, replacement price and the market price are shown, The goods are valued at the lowest price.

**Valuation of Raw Material**

Some accountants feel that since raw material is not meant for resale, it should always be valued at cost price irrespective of the market price. However, some others feel that it should be valued at a price which is lower of the cost price and replacement price. The argument advanced in this regard is that the price of the finished goods depends on the cost of raw material and as such raw material should be valued at cost price or replacement price, whichever is less.

The value of stores is always calculated at cost price.

**Valuation of Finished Goods**

The valuation of finished goods is always made at the least price out of cost price, replacement price or market price. The cost price in case of finished goods includes the cost of raw material and the manufacturing cost on that material. On the basis of this cost, cost per unit is calculated. As for example :

| | |
|---|---|
| Raw material | Rs. 3,00,000 |
| Wages | Rs. 2,00,000 |
| Factory or Manufacturing expenses | Rs. 1,00,000 |
| Total Manufacturing Cost | Rs. 6,00,000 |

Now suppose 6,000 units were produced. The cost per unit will be $\frac{6,00,000}{6,000}$, *i.e.*,=Rs. 1,000 per unit.

**Valuation of Semi-Finished Goods or Work in-Progress**

The valuation of semi-finished goods is calculated by adding the cost which would have been incurred in its production. Suppose the cost of raw material is Rs. 10,000, the wages Rs. 6,000 and other manufacturing expenses are calculated to be 60% of the wages. The calculation will be as under :

| | |
|---|---|
| Cost of Material | Rs. 10,000 |
| +Wages | Rs. 6,000 |
| +Manufacturing exp. | Rs. 3,600 |
| Total | Rs. 19,600 |

**Meaning of Cost**

The 'cost' for a businessman means the 'purchase price' and the cartage (cost for bringing the goods up to godown) paid. The 'cost' for a manufacturer means the cost of raw materials plus cartage plus custom, duties, etc., plus wages and other expenses of the factory. However, it does not include the expenses for the office establishment.

The valuation of closing stock depends on the nature of goods, decision of the management, costing method, pricing policy and the quantity of stock available.

According to financial accounting the cost of closing stock is calculated under the following methods :

1. **First in, First out, Method.** It is abbreviated as FIFO method. Under this method the presumption is made that the goods which are received first are disposed of first. As such the valuation of closing stock is done on the basis of the cost of the last purchases. To illustrate the point, let us assume that :

On Jan. 1, 500 units were bought @ Rs. 3 per unit
On April 1, 700 ,, ,, ,, @ Rs. 5 ,, ,,
On Aug. 1, 400 ,, ,, ,, @ Rs. 4 ,, ,,
On Dec. 1, 200 ,, ,, ,, @ Rs. 2 ,, ,,

Now let us presume that 250 units are in hand at the close of the year. The valuation will be done as under :

(Dec.) 200 units @ Rs. 2=200×2=Rs. 400
(Aug.) 50 ,, @ Rs. 4= 50×4=Rs. 200

Cost of 250 units = Rs. 600

2. **Last in, First Out, Method.** It is abbreviated as LIFO method. Under this method the presumption is that those goods which come last are disposed of *first*, as the cost of stock in hand is calculated on the basis of the cost of goods purchased first.

In the same illustration the cost of 600 units remaining in hand will be calculated as under :

(Jan.) 500 units @ Rs. 3=Rs. 1,500
(Feb.) 100 ,, @ Rs. 5=Rs. 500

Total cost of 600 units Rs. 2,000

3. **Average Price Method.** Under this method the cost of the stock in hand is calculated on the basis of the averages. The average is calculated in two ways. Firstly, simple average. This is based on the average of various costs at different time. Secondly, compounded average. This is based on total cost over a period and the total units bought. In the example given above the simple average cost will be calculated as under :

$$\text{Simple average} = \frac{\text{Rs. } 3 + \text{Rs. } 5 + \text{Rs. } 4 + \text{Rs. } 2}{4} = \frac{14}{4}$$

$$= \text{Rs. } 3{\cdot}50 \text{ each unit.}$$

If the stock in hand be 400 units the cost will be :

$$400 \times \tfrac{7}{2} = \text{Rs. } 1{,}400.$$

Under the second system the average cost will be caculated as:

| *Unit* | *Price* | *Total cost* |
| --- | --- | --- |
| 500 | Rs. 3 | 1,500 |
| 700 | Rs. 5 | 3,500 |
| 400 | Rs. 4 | 1,600 |
| 200 | Rs. 2 | 400 |
| 1800 | | 7,000 |

Average cost per unit$=\frac{7,000}{1800}=$Rs. 3·89.

**Standard Questions**

1. What do you understand by the concept of matching cost and revenue ? When is revenue said to be realised for accounting ?
2. Explain the Cash Basis and Accrual Basis of accounting. Name the circumstances under which the former would be suitable.
3. What may be possible reasons for an increase or decrease in the size of Gross Profit of the current year as compared to previous year.
4. What do you mean by Closing Inventory ? What is the need of correct valuation of closing Inventory ?
5. How would you determine the cost of the goods in the following cases—(*i*) Raw Material, (*ii*) Finished Goods, (*iii*) Work-in-progress, (*iv*) Stores.
6. Explain with the help of suitable illustrations the importance of the following in the measurement of business income—(*i*) Outstanding Expenses, (*ii*) Depreciation. (*iii*) Closing Stock.
(*All India S.S.C. Exam., 1978*)
7. Write Notes :—
(*i*) Matching Cost with Revenue.
(*D.S.S.C. Exam., 1978 & 1979* (*C*))
8. A manufacturer produces goods in January 1980, supplies goods in April 1980 and receives Cash in January 1981. State when the revenue is to be recognized.
(*D.S.S.C. Exam., 1978* (*C*))
9. "Revenue earned and cost of earning that Revenue should be properly identified for a period." Explain this statement.
(*D.S.S.C. Exam., 1979*)
10. Calculate business income from the following :

| | Rs. |
| --- | --- |
| Purchases (100 units) | 5,400 |
| Freight and Carriage | 600 |
| Rent and Advertising | 300 |
| Sales (75 units) | 5,400 |

(*D.S.S.C. Exam. 1979* (*C*)

# 14

# Final Accounts With Complete Adjustments

**Important Adjustments**

1. **Reserve for Discount on Debtors and Creditors.** Debtors are sometime allowed a discount to induce them for a prompt payment. The traders maintain a Reserve for them which is called Reserve for discount on Sundry Debtors. It is shown on the debit side of P. & L. A/c and deducted from the Sundry Debtors in the Balance Sheet. It should be remembered that while calculating the Reserve for Discount, the Reserve for Bad Debts should be deducted from the Sundry Debtors. For example, Debts are Rs. 10,000, Reserve for Discount is Rs. 500. A Reserve for Bad Debts @ 5% will not be calculated on Rs. 10,000 but on Rs. 9,500 (Rs. 10,000— Rs. 500).

Similarly, our creditors may also allow us a discount for promit payment. This amount is calculated on creditors. It is shown on the credit side of the P. & L. A/c and deducted from the creditors in the Balance Sheet.

**Illustration 14-1**

On 31st December, 1980, it is found that the debtors' balances on that date total up to Rs. 5,000. Provide reserve for Bad and Doubtful Debts @ 5% and for discount @ 2% on Sundry Debtors.

**Solution**

Reserve for discount on Debtors will be created on :

| | | |
|---|---|---|
| Total Debtors | 5,000 | |
| *Less* : Reserve for Bad Debts | 500 | |
| | Rs. 4,750 at2%=Rs. 95 | |

Following entry is passed :

| | | | |
|---|---|---|---|
| Profit and Loss A/c | Dr. | 95 | |
| To Reserve for discount | | | 95 |
| (For reserve for discount on debtors created) | | | |

Following entry is passed for Reserve for Discount on Creditors.

| | |
|---|---|
| Reserve for Discount on Creditors | Dr. |
| To Profit and Loss A/c | |
| (For reserve for discount on creditors created) | |

2. **Accrued Income or Income Earned but not Received.** Sometimes it so happens that a trader earns an income but does not receive it up to the time of preparation of Final Accounts. Such an income is called income earned but not received or Accrued Income. For example, the trader receives an annual rent of Rs. 3,000 on his building but up to the time of preparation of Final Accounts he has received only Rs. 2,500. He is still entitled to receive Rs 500 more. An adjustment is necessary for this amount before the final Accounts are prepared otherwise the net profit will be reduced by Rs. 500. This amount is shown on the credit side of P. & L. A/c and on the Assets side of the Balance Sheet.

Its journal entry will be as follows :

| | | | |
|---|---|---|---|
| Accrued Rent A/c | Dr. | 500 | |
| To Rent A/c | | | 500 |
| (For accrued rent brought in the books) | | | |

*Dr.* **PROFIT & LOSS ACCOUNT** *Cr.*

| | | | | Rs. |
|---|---|---|---|---|
| | | By Rent A/c | 2,500 | |
| | | *Add* Accrued Rent A/c | 500 | 3,000 |

**BALANCE SHEET**

| | | | Rs. |
|---|---|---|---|
| | | Accrued Rent | 500 |

3. **Unearned Income or Income Received in Advance.** Sometimes the trader receives some amount in advance which is more than what he should have received in the current year for a particular item. Such an amount is a Liability for him. For example, Rajender Gupta, has to receive Rs. 1,200 as Rent during the year from his tenant, but the tenant paid Rs. 1,500, Rs. 300 has been received in advance which is concerned with the next year. Thus in the P. & L. A/c it will be shown as Rent received in advance on the credit side and in the Balance Sheet it will be shown as Liability. Its adjustments will be as follows :

| | | | |
|---|---|---|---|
| Rent A/c | Dr. | 300 | |
| To Rent received in Advance | | | 300 |
| (For rent received in Advance brought into books) | | | |

**PROFIT AND LOSS A/C** (*Cr.*)

| | Dr. | Dr. |
|---|---|---|
| By Rent A/c | 1,500 | |
| *Less* Rent Received in Advance A/c | 300 | 1,200 |

**BALANCE SHEET** (*Liabilities*)

| | Dr. |
|---|---|
| Rent Received in Advance | 300 |

4. **Manager's Commission.** Generally, the manager is paid a salary. But to increase his efficiency he is also paid a commission at a specific rate. It can be given on the following basis :

(*i*) **On Sales Basis.** Manager is given a commission according to the sales. For example, Harish Kumar Gupta gives 5% commission to his manager. His sales are Rs. 20,000. The Manager's Commission will be as follows :

$$20,000 \times \frac{5}{100} \text{ Rs. } 1,000$$

(*ii*) **On Profit Basis.** Sometimes the manager is given commission on the basis of profit. For example, Harish Kumar Gupta earns a profit of Rs. 10,000 and the Manager is given a commission of 5%. This commission will thus be as follows :

$$10,0C0 \times \frac{5}{100} = \text{Rs. } 500$$

Now the profit after calculating the manager's commission will remain 10,000—500=Rs. 9,500.

But sometimes the Manager is entitled to a commission of 5% of net profit after deducting such commission. Now if the commission is calculated at 5% on Rs. 9,500 it will come to Rs. 475. The following method can be followed :

$$\frac{\text{Percentage of Commission}}{100+\text{Percentage of Commission}} \times \text{Net Profit}$$

Thus the Manager's Commission will be

$$\frac{5}{100+5} \times 10,0C0$$

$$= \frac{5}{105} \times 10,000 = \text{Rs. } 476{\cdot}20 \text{ (Appx.)}$$

The commission is debited to the P. & L. A/c and shown as a liability in the Balance Sheet.

5. **Accidental Losses.** Sometimes the goods are destroyed by fire in the godown or earthquake. If the goods purchased for resale, are destroyed the following entry will be passed :

Loss by Fire A/c Dr.
    To Trading A/c
(For goods destroyed by fire)

If some fixed asset is destroyed the entry will be :

Loss by Fire A/c Dr.
    To Furniture A/c
(For furniture destroyed by fire)

If the goods have been insured and full claim is received the entry will be :

Insurance Co.'s A/c Dr.
    To Loss by fire
(For Loss recovered from Insurance Co.)

If the claim is recovered in part the entry will be :

Insurance Co.'s A/c Dr.

P. & L. A/c Dr.

To Loss by Fire A/c.

(For Partial claim received from Insurance Co. and balance debited to P. & L. A/c.)

6. **Deferred Revenue Expendituue.** When a huge amount is spent on an expense and its effect is to last for a long time, it is called Deferred Revenue Expenditure. It is not desirable to charge such an expenditure against the P. & L. A/c of that year. It should first be estimated as to for how many years its benefit will continue. The amount of expenditure should be divided by this estimated number of years and the Profit and Loss A/c of the current year should be charged with this amount. Rest of the amount should be shown on the Assets side of the Balance sheet. For example, Ram & Co. spent Rs. 20,000 on advertisements and it is estimated that its benefit will last for 5 years. Thus for 5 years Rs. 4,000 will be charged to the P. & L. A/c of the current years and the balance will go to the Assets side of the Balance Sheet.

## SUMMARY OF ADJUSTMENTS

| *Adjustments* | *Trading and Profit and Loss A/c* | *Balance Sheet* |
|---|---|---|
| 1. Closing Stock | Shown on the credit side of Trading A/c | Shown on the Assets side of Balance Sheet. |
| 2. Outstanding Expenses | Added in the concerned expense in the Trading or Profit & Loss A/c | Shown on the Liabilities side of Balance Sheet. |
| 3. Prepaid, paid in advance or Unexpired Expenses | Deducted from the concerned expense in the Trading or P. & L. A/c | Shown on the Assets side of Balance Sheet. |
| 4. Depreciation | Shown on the debit side of P. & L. A/c | Deducted in the Assets side of the B/S from the concerned asset. |
| 5. Interest on Capital | Shown on the debit side of P. & L. A/c | Added in the Capital on the liabilities side of B/S. |
| 6. Bad Debts Reserve | Added in the Bad Debts in the P. & L. A/c | Deducted from Debtors in the Assets side of B/S. |
| 7. Interest on Loan | Shown on the Dr. side of P. and L. A/c | Added in the amount of Loan in the Liability side of B/S. |
| 8. Accrued Income on Income due but not received. | Added in the concerned amount on the Cr. side of the P. & L. A/c | Shown in the Assets side of B/S. |
| 9. Unearned Income or Income received in advance | Deducted from the concerned amount on the Cr. side of P. & L. A/c | Shown in the Liabilities side of B/S. |
| 10. Reserve for Discount on Debtors | Shown on the Dr. side of P. & L. A/c | Deducted from Sundry Debtors in the Assets side of B/S. |
| 11. Reserve for Discount on Creditors | Shown on the Cr. side of P. & L. A/c | Deducted from Sundry Creditors in the Liabilities side of B/S. |
| 12. Deferred Revenue Expenditure | Only part of the expense related to that year is shown on the Dr. side of P. & L. A/c | Expense of the related year is deducted from the total expenses in the Assets side of B/S. |

### Typical Adjustments

**(1) Loss of Goods from Fire**—Loss of goods from fire can be of two types :

***(i)* When goods have not been insured**—When the goods are not insured and there is loss from fire, it is shown on the credit side of Trading A/c and on the debit side of P. & L. A/c.

(*ii*) **When goods have been insured**—This loss is also shown on the credit side of Trading A/c on the Assets si le of B/S because the amount will be recovered from the insurance company.

(2) **Goods given away as charity, drawings or free samples** – These are credited in the Purchases and debited in the concerned expenses :

Charity A/c Dr.
Drawings A/c Dr.
Free Samples A/c Dr.
To Purchases

These amounts will be deducted from the Purchases on the Dr. side of Trading A/c. Drawings will be deducted from the capital in the liabilities side. Charity and free samples will be shown on the Dr. side of P. and L. A/c.

(3) **Sending goods on sale or return basis** – A businessman sends goods worth Rs. 400 on sale or return basis for Rs. 600. It is recorded in the sales by mistake Its adjustment will be done at three places.

(*i*) Rs. 600 will be deducted from Sales in the Trading A/c because it is not actual sale.

(*ii*) Rs. 400 will be added in the closing stock in the Trading A/c.

(*iii*) Rs. 600 will be deducted from the Debtors in the B/S.

(4) **Adjusted Purchases** – In some businesses, the opening stock and the closing stock are adjusted in the purchases A/c. This is done to have a comparative study of the items. The following entries are passed in this connection :

(*i*) Purchases A/c Dr.
To Opening Stock A/c

By recording this entry the opening stock A/c is closed and the total of purchases increases.

(*ii*) Closing Stock A/c Dr.
To Purchases A/c

By doing this, the total of purchases is increased and closing stock A/c is opened. This adjusted purchases A/c is shown on the debit side of the Trading A/c and the closing stock A/c is shown as an asset in the balance sheet.

**Rules of Preparing Trial Balance**

When balances of the accounts are given and it is asked to prepare Trial Balance from these balances, we should follow the following rules :

(*i*) **All expenses and losses are debit balances**—As all expenses and losses are debit balances they are shown on the debit

side ,*e g.*, Purchases, Wages, Import and Export Duties, Postage and Telegram expenses, Discount allowed, Salaries, Return Inwards, Interest paid, Electricity, Stationery, Telephone Expenses, Insurance, Office expenses, Repairs, etc.

(*ii*) **All incomes and gains are credit balances**—As all incomes and gains are credit balances, they are shown on the credit side, *e.g.*, Sales, Purchases Returns, Interest receieed, Commission received Discount received, Interest on investment, Apprenticeship Premium.

(*iii*) All Assets, Drawings and Reserve on Liabilities are debit balances. All these are shown in the debit side of the Trial Balance, *e.g.*, Furniture, Bill Receivable, Plant and Machinery, Cash in hand and Cash at Bank, Accrued income, Prepaid expenses, Discount on Creditors, Goodwill, etc.

(*iv*) Capital, Reserve on Assets, Reserves created out of Profit and other Liabilities are credit balances. As they are all credit balances they are shown on the credit side of the Trial Balance, *e.g.*, Loan, Bills Payable, Outstanding expenses Bank Loan, Reserve for Bad Debts, Discount on Debtors, General Reserve, Reserve Fund, Provident Fund, etc.

(*v*) Opening stock is a debit balance.

**Illustration 14-2**

Correct the following Trial Balance drawn up by a merchant giving reasons for your correction :—

| | Dr. | Cr. |
|---|---|---|
| | Rs. | Rs. |
| Capital | | 20,000 |
| Furniture & Fixture | | 2,000 |
| Deposit with Bank | 15,000 | |
| Interest received from Bank | 750 | |
| Miscellaneous receipts | 1,500 | |
| Sundry Creditors | | 2,500 |
| Sundry Debtors | 7,000 | |
| Discount allowed | | 500 |
| Discount received | 400 | |
| Purchases | 60,000 | |
| Sales | | 80,000 |
| Returns Inwards | 1,000 | |
| Returns Outwards | | 1,500 |
| Carriage Inwards | 1,500 | |
| Carriage Outwards | | 1,000 |
| Salaries and Wages | 5,000 | |
| Miscellaneous Expenses | | 2,000 |
| Cash in Hand | 250 | |
| Opening Stock | 11,400 | |
| Closing Stock | 5,700 | |
| Total | 1,09,500 | 1,09,500 |

## (CORRECTED TRIAL BALANCE)

### TRIAL BALANCE

*as on...*

| L.F. | Name of the Accounts | Dr. Amount Rs. | Cr. Amount Rs. |
|---|---|---|---|
| | Capital A/c | | 20,000 |
| | Furniture & Fixtures | 2,000 | |
| | Deposit with Bank | 15,000 | |
| | Interest Received from Bank | | 750 |
| | Miscellaneous Receipts | | 1,500 |
| | Sundry Creditors | | 2,500 |
| | Sundry Debtors | 7,000 | |
| | Discount allowed | 500 | |
| | Discount received | | 400 |
| | Purchases | 60,000 | |
| | Sales | | 80,000 |
| | Returns Inward | 1,000 | |
| | Returns Outward | | 1,500 |
| | Carriage Inward | 1,500 | |
| | Carriage Outward | 1,000 | |
| | Salaries and Wages | 5,000 | |
| | Miscellaneous Expenses | 2,000 | |
| | Cash in hand | 250 | |
| | Opening Stock | 11,400 | |
| | | 1,06,650 | 1,06,650 |

Closing Stock Rs. 5,700

**Illustration 14-3**

A Book-keeper has submitted to you the following Trial Balance wherein the totals of the debit and credit balances are not equal :

| | *Debit Balances* | *Credit Balances* |
|---|---|---|
| Capital | | 7,670 |
| Cash in hand | | 30 |
| Purchases | 8,990 | |
| Sales | | 11,060 |
| Cash at bank | 885 | |
| Fixtures and fittings | 225 | |
| Freehold Premises | 1,500 | |
| Lighting and Heating | 65 | |
| Bills Receivable | | 825 |
| Returns Inward | | 30 |
| Salaries | 1,075 | |
| Creditors | | 1,890 |
| Debtors | 5,700 | |
| Debtors in the begnning | 3,000 | |

| | | |
|---|---|---|
| Printing | 225 | |
| Bills Payable | 1,875 | |
| Rates, Taxes and Insurance | 190 | |
| Discount received | 445 | |
| Discount allowed | | 200 |
| | 24,175 | 21,705 |

You are required to :

(*i*) Redraft the trial balance correctly.

(*ii*) Prepare a Trading and Profit and Loss Account and a Balance Sheet after taking into account the following adjustments :

(*a*) Stock in hand at the end the year was valued at Rs. 1,800.

(*b*) Depreciate Fixtures and Fittings by Rs. 25.

(*c*) Rs. 35 was due and unpaid in respect of Salaries.

(*d*) Rates and Insurance had been paid in advance to the extent of Rs. 40.

**Solution**

(*i*) REDRAFTED TRIAL BALANCE

| Particulars | Debit Balances Rs. | Credit Balances Rs. |
|---|---|---|
| Capital | | 7,670 |
| Cash in hand | 30 | |
| Purchases | 8,990 | |
| Sales | | 11,060 |
| Cash at Bank | 885 | |
| Fixtures & Fittings | 225 | |
| Freehold Premises | 1,500 | |
| Lighting & Heating | 65 | |
| Bills Receivable | 825 | |
| Returns Inwards | 30 | |
| Salaries | 1,075 | |
| Creditors | | 1,890 |
| Debtors | 5,700 | |
| Stock in the beginning | 3,000 | |
| Printing | 225 | |
| Bills payable | | 1,875 |
| Rates, Taxes & Insurance | 190 | |
| Discount received | | 445 |
| Discount allowed | 200 | |
| Rs. | 22,940 | 22,940 |

## TRADING AND PROFIT AND LOSS ACCOUNT

*For the year ending...*

| Particulars | | Rs. | Particulars | | Rs. |
|---|---|---|---|---|---|
| To Opening Stock, | | 3,000 | By Sales | 11,060 | |
| ,, Purchases | | 8,990 | *Less*: Returns Inwards | 30 | |
| ,, Gross Profit c/d | | 840 | | | 11,030 |
| | | | ,, Closing Stock | | 1,800 |
| | | 12,830 | | | 12,830 |
| To Lighting & Heating | | 65 | By Gross Profit b/d | | 840 |
| ,, Salaries | 1,075 | | ,, Discount Received | | 445 |
| *Add*: Salaries unpaid | 35 | | ,, Net loss t/f to Capital A/c | | 490 |
| | | 1,110 | | | |
| To Printing | | 225 | | | |
| ,, Rates, Taxes & Insurance | 190 | | | | |
| *Less*: Prepaid Rates & Ins. | 40 | | | | |
| | | 150 | | | |
| ,, Discount allowed | | 200 | | | |
| ,, Depreciation on fixtures & fittings | | 25 | | | |
| | | 1,775 | | | 1,775 |

## BALANCE SHEET

*As on......*

| Liabilities | | Rs. | Assets | | Rs. |
|---|---|---|---|---|---|
| Creditors | | 1,890 | Cash in hand | | 30 |
| Bills Payable | | 1,875 | Cash at Bank | | 885 |
| Outstanding Salaries | | 35 | Bills Receivable | | 825 |
| Capital | 7,670 | | Debtors | | 5,700 |
| *Less*: Net Loss | 490 | | Prepaid Rates & Insurance | | 40 |
| | | 7,180 | Closing Stock | | 1,800 |
| | | | Freehold Premises | | 1,500 |
| | | | Fixtures & Fittings | 225 | |
| | | | *Less*: Depreciation | 25 | |
| | | | | | 200 |
| | | 10,980 | | | 10,980 |

**Illustration 14-4**

From the following balances extracted from the books of Radhey Lal Gupta, prepare a Trading and Profit and Loss Account for the year ending 31st December, 1980 and a Balance Sheet as on that date :

| | Rs. |
|---|---|
| Capital Account | 20,500 |
| Trade Creditors | 15,000 |
| Creditors for Expenses | 3,400 |

| | |
|---|---|
| Rent Received | 300 |
| Purchases Returns | 2,000 |
| Sales | 1,44,800 |
| Bad Debts Reserve, 1st Jan., 1980 | 300 |
| Advertising Development | 4,000 |
| Goodwill | 2,500 |
| Plant and Machinery | 10,000 |
| Furniture and Fittings | 1,350 |
| Stock on 1st January, 1980 | 16,000 |
| Sundry Debtors | 7,300 |
| Cash at Bank | 1,000 |
| Cash in hand | 55 |
| Drawings | 2,500 |
| Purchases | 85,500 |
| Carriage inwards | 750 |
| Manufacturing Wages | 11,500 |
| Factory Fuel and Power | 4,500 |
| Rent, Rates & Insurance | 9,950 |
| Salaries and Wages (General) | 15,700 |
| Discount Received | 900 |
| General Charges | 4,300 |
| Sales Returns | 300 |
| Travellers' Commission | 1,445 |
| Travellers Salaries | 4,550 |
| Discount allowed | 2,500 |
| Repairs and Renewals | 1,500 |

The closing stock was valued at Rs. 11.500. Depreciate Plant and Machinery by 10% and Furniture and Fittings by 20%. Increase Bad Debts' Reserve to Rs 1,000. Write off 50% of the Advertising Development Insurance Premium is prepaid to the Amount of Rs. 600.

**Solution**

TRADING & PROFIT & LOSS ACCOUNT OF
MR. RADHEY LAL GUPTA

*For the year ending 31st Dec. 1980*

| Particulars | | Amount | Particulars | | Amount |
|---|---|---|---|---|---|
| | | Rs. | | | Rs. |
| To Opening Stock | | 16,000 | By Sales | 1,44,800 | |
| ,, Purchases | 85,500 | | *Less:* Returns | 300 | |
| *Less*: Returns | 2,000 | | | | 1,44,500 |
| | | 83,500 | By Closing Stock | | 11,500 |
| ,, Carriage Inwards | | 750 | | | |
| ,, Manufacturing Wages | | 11,500 | | | |
| ,, Factory, Fuel and Power | | 4,500 | | | |
| ,, Gross Profit c/d | | 39,750 | | | |
| | | 1,56,000 | | | 1,56,000 |
| To Bad Debts Reserve | 1,000 | | By Gross Profit b/d | | 39,750 |
| *Less*: Old Reserve | 300 | | ,, Rent | | 300 |
| | | 700 | ,, Discount | | 900 |
| ,, Advertising Development | 4,000 | | ,, Net Loss transferred to Capital A/c | | 2,365 |
| *Less*: Written off | 2,000 | | | | |
| | | 2,000 | | | |
| ,, Rent, Rates & Insurance | 9,950 | | | | |
| *Less*: Prepaid | 600 | | | | |
| | | 9,350 | | | |
| ,, Salaries & Wages | | 15,700 | | | |
| ,, General Charges | | 4,300 | | | |
| ,, Travellers' Commission | | 1,445 | | | |
| ,, Travellers' Salaries | | 4,550 | | | |
| ,, Discount | | 2,500 | | | |
| ,, Repairs | | 1,500 | | | |
| ,, Depreciation on : | | | | | |
| Plant | 1,000 | | | | |
| Furniture | 270 | | | | |
| | | 1,270 | | | |
| | | 43,315 | | | 43,315 |

**BALANCE SHEET OF MR. RADHEY LAL GUPTA**
*As on 31st December, 1980*

| Liabilities | | Amount | Assets | | Amount |
|---|---|---|---|---|---|
| | | Rs. | | | Rs. |
| | | | Cash in hand | | 55 |
| | | | Cash at Bank | | 1,000 |
| Capital | 20,500 | | Stock | | 11,500 |
| *Less*: Drawings | 2,500 | | Debtors | 7,300 | |
| | 18,000 | | *Less*: Reserve for D/D | 1,000 | |
| *Less*: Net Loss | 2,365 | 15,635 | | | 6,300 |
| Creditors | 15,000 | | Plant and Machinery | 10,000 | |
| Creditors for Exp. | 3,400 | 18,400 | *Less*: Depreciation | 1,000 | 9,000 |
| | | | Furniture | 1,350 | |
| | | | *Less*: Dep. | 270 | 1,080 |
| | | | Advertising Development | | 2 000 |
| | | | Insurance Prepaid | | 600 |
| | | | Goodwill | | 2,500 |
| | | 34,035 | | | 34,035 |

**Illustration 14-5**

On 31st March 1980, the following Trial Balance of R. Ramarao was taken out. Prepare final accounts for the year after making the following adjustments :

(*a*) Depreciation 5% on Plant and Machinery and 10% on Fixtures and Fittings ; (*b*) Reserve for March rent unpaid Rs 150 ; (*c*) Reserve for Bad Debts 2½% on Sundry Debtors ; (*d*) Insurance unexpired on 31st March, 1980 Rs. 70 ; (*e*) Outstanding Wages Rs. 800 and Salaries Rs. 350 ; (*f*) Stock on 31st March, 1980 Rs. 16,580.

**TRIAL BALANCE**

| | Rs. |
|---|---|
| *Dr. Balances* | |
| Plant and Machinery | 55,000 |
| Fixtures and Fittings | 1,720 |
| Factory Fuel and Power | 542 |
| Office Salaries | 3,745 |
| Lighting (Factory) | 392 |
| Travelling Expenses | 925 |
| Carriage on Sales | 960 |
| Cash at Bank | 2,245 |
| Cash in hand | 68 |
| Sundry Debtors | 47,800 |
| Purchases | 83,290 |
| Wages | 9,915 |
| Rent and Taxes | 1,765 |
| Office Expenses | 2,778 |
| Carriage on Purchases | 897 |

| | |
|---|---|
| Discount | 422 |
| Drawings Account | 6,820 |
| Stock 1st April, 1979 | 21,725 |
| Manufacturing Expenses | 2,680 |
| Sales Returns | 7,422 |
| Insurance | 570 |
| *Cr. Balances* | |
| R. Ramarao's Capital | 93,230 |
| Sales | 1,26,177 |
| Sundry Creditors | 22,680 |
| Purchases Returns | 3,172 |
| Bills Payable | 6,422 |

**Solution**

**The following are the adjusting entries :**

JOURNAL ENTRIES

| Date | Particulars | L.F. | Dr. Amount | Cr. Amount |
|---|---|---|---|---|
| | | | Rs. | Rs. |
| | Depreciation A/c Dr.<br>To Plant & Machinery<br>To Fixtures & Fittings<br>(For provision for depreciation on Plant & Machinery @ 5% and Fixtures and Fittings @ 10%) | | 2,922 | <br>2,750<br>172 |
| | Profit and Loss A/c Dr.<br>To Reserve for Doubtful Debts A/c<br>(For Provision for Bad Debts created at 2½% on Sundry Debtors of Rs. 47,800) | | 1,195 | <br>1,195 |
| | Rent and Taxes A/c Dr.<br>Manufacturing Wages A/c ,,<br>Salaries A/c ,,<br>To Outstanding Creditors A/c<br>(For the provision for expenses outstanding on 31 March, 1980) | | 150<br>800<br>350 | <br><br><br>1,300 |
| | Prepaid Insurance A/c Dr.<br>To Insurance A/c<br>(For the entry to adjust Unexpired Insurance) | | 70 | <br>70 |
| | Purchases Returns A/c Dr.<br>To Purchases A/c<br>(For the transfer of Purchases Returns to the latter A/c) | | 3,172 | <br>3,172 |
| | Sales A/c Dr.<br>To Sales Returns<br>(For the transfer of Sales Returns to the former A/c) | | 7,422 | <br>7,422 |

| | | | Rs. | Rs. |
|---|---|---|---|---|
| Trading A/c | Dr. | | 1,17,069 | |
| To Stock A/c | | | | 21,725 |
| ,, Purchases A/c | | | | 80,118 |
| ,, Manufacturing Wages A/c | | | | 10,715 |
| ,, ,, Expenses A/c | | | | 2,680 |
| ,, Carriage on Purchases A/c | | | | 897 |
| ,, Fuel and Power A/c | | | | 542 |
| ,, Factory Lighting A/c | | | | 392 |
| (For the transfer of latter's A/cs to the former's A/c) | | | | |
| Sales A/c | Dr. | | 1,18,755 | |
| To Trading A/c | | | | 1,18,755 |
| (For the transfer of former's A/c to the latter's A/c) | | | | |
| Stock A/c | Dr. | | 16,580 | |
| To Trading A/c | | | | 16,580 |
| (For the entry transfer of sales to the latter's A/c) | | | | |
| Profit and Loss A/c | Dr. | | 14,517 | |
| To Salaries A/c | | | | 4,095 |
| ,, Office Expenses A/c | | | | 2,778 |
| ,, Rent and Taxes A/c | | | | 1,915 |
| ,, Carriage Outwards A/c | | | | 960 |
| ,, Travelling Expenses A/c | | | | 925 |
| ,, Insurance A/c | | | | 500 |
| ,, Discount A/c | | | | 422 |
| ,, Depreciation A/c | | | | 2,922 |
| (For the transfer of various expenses Account to the Profit and Loss A/c) | | | | |
| Profit and Loss A/c | Dr. | | 2,554 | |
| To Capital A/c | | | | 2,554 |
| (For the transfer of net profit to Capital A/c) | | | | |
| Capital A/c | Dr. | | 6,820 | |
| To Drawings A/c | | | | 6,820 |
| (For the transfer of Drawings A/c to the former's A/c) | | | | |

## TRADING & PROFIT & LOSS ACCOUNT OF R. RAMARAO
*For the year ending 31st March, 1980*

| Particulars | | Amount | Particulars | | Amount |
|---|---|---|---|---|---|
| | Rs. | Rs. | | Rs. | Rs. |
| To Stock, 1-4-1979 | | 21,725 | By Sales | 1,26,177 | |
| ,, Purchases | 83,290 | | *Less*: Returns | 7,422 | |
| *Less*: Returns | 3,172 | | | | 1,18,755 |
| | | 80,118 | By Stock (31 March, 1980) | | 16,580 |
| ,, Manufacturing Wages | | 10,715 | | | |
| ,, ,, Expenses | | 2,680 | | | |
| ,, Carriage on Purchases | | 897 | | | |
| ,, Fuel and Power | | 542 | | | |
| ,, Factory Lighting | | 392 | | | |
| ,, Gross Profit c/d | | 18,266 | | | |
| | | 1,35,335 | | | 1,35,335 |
| To Salaries | | 4,095 | By Gross Profit b/d | | 18,266 |
| ,, Office Expenses | | 2,778 | | | |
| ,, Rent and Taxes | | 1,915 | | | |
| ,, Carriage outwards | | 960 | | | |
| ,, Travelling Expenses | | 925 | | | |
| ,, Insurance | | 500 | | | |
| ,, Discount | | 422 | | | |
| ,, Reserve for Doubtful Debts | | 1,195 | | | |
| ,, Depreciation on : | | | | | |
| Plant and Machinery at 5% | 2,750 | | | | |
| Fixtures and Fittings at 10% | 172 | | | | |
| | | 2,922 | | | |
| ,, Net Profit transferred to Capital A/c | | 2,554 | | | |
| | | 18,266 | | | 18,266 |

1. Figure of Salaries comes as follows :
   3,745+350 (outstanding)=Rs. 4,095

2. Figure of Rent and Taxes comes as follows :
   1,765+150 (unpaid)=Rs. 1,915

3. Figure of Wages comes as follows :
   9,915+800 (outstanding)=Rs. 10,715

**BALANCE SHEET OF R. RAMARAO**

*As on 31st March, 1980*

| Liabilities | | Amount | Assets | | Amount |
|---|---|---|---|---|---|
| Sundry Creditors | | 22,680 | Cash in hand | | 68 |
| Bills Payable | | 6,422 | Cash at Bank | | 2,245 |
| Outstanding Expenses | | 1,300 | Sundry Debtors | 47,800 | |
| Capital A/c : | | | *Less*: Reserve for Doubtful Debts at 2½ per cent | 1,195 | |
| Balance on 1st April 1979 | 93,230 | | | | 46,605 |
| *Add*: Net Profit during the year | 2,554 | | Stock | | 16,580 |
| | 95,784 | | Fixtures and Fittings | 1,720 | |
| *Less*: Drawings during the year | 6,820 | | *Less*: Depreciation at 10 per cent | 172 | |
| | | 88,964 | | | 1,548 |
| | | | Plant & Machinery | 55,000 | |
| | | | *Less*: Depreciation at 5 per cent | 2,750 | |
| | | | | | 52,250 |
| | | | Prepaid Expenses | | 70 |
| | | 1,19,366 | | | 1,19,366 |

**Illustration 14-6**

Prepare Trading and Profit & Loss Account and Balance Sheet from the following particulars as on 31st December, 19...

| *Debit Balances* | Rs. | | Rs. |
|---|---|---|---|
| Cash in hand | 1,500 | Bills Receivable | 3,000 |
| Purchases | 12,000 | *Credit Balances* | |
| Returns | 1,000 | Capital | 10,000 |
| Establishment charges | 2,500 | Bank Overdraft @ 5% | 2,000 |
| Taxes & Insurance | 500 | Sales | 15,000 |
| Bad Debts | 500 | Returns | 2,000 |
| Sundry Debtors | 5,000 | Bad Debts reserve | 1,000 |
| Investments | 4,000 | Creditors | 1,850 |
| Stock on 1st Jan., 19 .. | 3,000 | Commission | 500 |
| Drawings | 1,400 | Bills payable | 2,500 |
| Furniture | 600 | Collected sales tax | 150 |

Further, you are required to take into consideration the following information :

(*a*) Salary Rs. 100 and Taxes Rs. 400 are outstanding but Insurance Rs. 50 prepaid.

(*b*) Commission amounting to Rs. 100 has been received in advance for work to be done next year.

(*c*) Interest accrued on Investments Rs. 210.

(*d*) Bad Debts Reserve is to be maintained at Rs. 1,000.

(*e*) Depreciation on Furniture is to be charged at 10%.

(*f*) Stock on 31st December, 19... was valued at Rs. 4,500.

**Solution**

## TRADING & PROFIT & LOSS ACCOUNT

*For the year ending 31st Dec., 19...*

| Particulars | | Rs. | Particulars | | Rs. |
|---|---|---|---|---|---|
| To Opening Stock | | 3,000 | By Sales | 15,000 | |
| ,, Purchases | 12,000 | | *Less*: Sales Returns | 1,000 | 14,000 |
| *Less*: Purchases Returns | 2,000 | 10,000 | By Closing Stock | | 4,500 |
| To Gross Profit c/d | | 5,500 | | | |
| | | 18,500 | | | 18 500 |
| To Establishment charges | 2,500 | | By Gross Profit b/d | | 5,500 |
| *Add*: Salaries outstanding | 100 | 2,600 | By Commission | 500 | |
| To Taxes and Insurance | 500 | | *Less*: Unearned Com. | 100 | 400 |
| *Add*: Outstanding taxes | 400 | | By Investment Accrued on Investment | | 210 |
| | 900 | | | | |
| *Less*: Prepaid Insurance | 50 | 850 | | | |
| To Interest on bank overdraft | | 100 | | | |
| To Bad Debts | 500 | | | | |
| *Add*: Provisions for Doubtful Debts | 1,000 | | | | |
| | 1,500 | | | | |
| *Less*: Existing provision | 1,000 | 500 | | | |
| To Depreciation for furniture | | 60 | | | |
| To Net Profit t/f Capital A/c | | 2,000 | | | |
| | | 6,110 | | | 6,110 |

## BALANCE SHEET

*As on 31st Dec., 19...*

| Liabilities | | Rs. | Assets | | Rs. |
|---|---|---|---|---|---|
| Bills Payable | | 2,500 | Cash in hand | | 1,500 |
| Sundry Creditors | | 1,850 | Bills Receivable | | 3,000 |
| Sales Tax | | 150 | Investment | 4,000 | |
| Outstanding expenses : | | | *Add*: Accrued Interest | 210 | 4,210 |
| Salaries | 100 | | Prepaid Insurance | | 50 |
| Taxes | 400 | 500 | Closing Stock | | 4,500 |
| Commission unearned | | 100 | Sundry Debtors | 5,000 | |
| Bank overdraft | 2,000 | | *Less*: Provisions for b/d | 1,000 | 4,000 |
| *Add*: Interest on bank overdraft | 100 | 2,100 | Furniture | 600 | |
| Capital | 10,000 | | *Less*: Depreciation | 60 | 540 |
| *Add*: Net Profit | 2,000 | | | | |
| | 12,000 | | | | |
| *Less*: Drawings | 1,400 | 10,600 | | | |
| | | 17,800 | | | 17,800 |

*Note* : (*i*) The term 'Establishment' stands for salary of staff.
(*ii*) Collection of Sales Tax is our liability.

**Illustration 14-7**

The following is the Trial Balance of Madho Prasad on 31st December, 1979 :

| *Debit Balances* : | Rs. | | Rs. |
|---|---|---|---|
| Cash in hand | 540 | Machinery | 20,000 |
| Cash at Bank | 2,630 | Patents | 7,500 |
| Purchases | 40,675 | Salaries | 15,000 |
| Return Inwards | 680 | General Expenses | 3,000 |
| Wages | 10,480 | Insurance | 600 |
| Fuel & Power | 4,730 | Drawings | 5,245 |
| Carriage on Sales | 3,200 | Sundry Debtors | 14,500 |
| Carriage on Purchases | 2,040 | *Credit Balances* : | |
| Stock Account (1st Jan.) | 5,760 | Sales | 98,780 |
| Buildings | 30,000 | Returns Outwards | 500 |
| Freehold Land | 10,000 | Capital | 71,000 |
| | | Sundry Creditors | 6,300 |

Taking into account the following adjustments, prepare Trading and Profit and Loss Account and the Balance Sheet :

(*a*) Stock in hand on 31st December, 1979 is Rs. 6,800.

(*b*) Machinery is to be depreciated at the rate of 10% and Patents at the rate of 20%.

(*c*) Salaries Outstanding Rs. 1,500.

(*d*) Insurance includes a Premium of Rs. 170 on a policy expiring on 30-6-1980.

(*e*) Wages included a sum of Rs. 2,000 spent on the erection of a cycle shed for employees.

(*f*) Provide for Bad and Doubtful Debts at the rate of 5% on Sundry Debtors.

**Solution**

### TRADING & PROFIT & LOSS ACCOUNT

*Dr.* *For the year ending 31st Dec., 1979* *Cr.*

| | Rs. | Rs. | | Rs. | Rs. |
|---|---|---|---|---|---|
| To Opening Stock | | 5,760 | By Sales | 98,780 | |
| To Purchases | 40,675 | | *Less*: Returns Inwards | 680 | 98,100 |
| *Less*: Returns Outwards | 500 | 40,175 | By Closing Stock | | 6,800 |
| To Wages | | 8,480 | | | |
| To Fuel & Power | | 4,730 | | | |
| To Carriage on Purchases | | 2,040 | | | |
| To Gross Profit c/d | | 43,715 | | | |
| | | 1,04,900 | | | 1,04,900 |
| To Salaries | 15,000 | | By Gross Profit b/d | | 43,715 |
| *Add*: Outstanding | 1,500 | 16,500 | | | |
| To Carriage on Sales | | 3,200 | | | |
| To General Expenses | | 3,000 | | | |
| To Insurance | 600 | | | | |
| *Less*: Prepaid | 85 | 515 | | | |
| To Provision for Bad & Doubtful Debts | | 725 | | | |
| To Depreciation on : Machinery | 2,000 | | | | |
| Plant | 1,500 | 3,500 | | | |
| To Net Profit transferred to Capital A/c | | 16,275 | | | |
| | | 43,715 | | | 43,715 |

### BALANCE SHEET OF MADHO PRASAD
*As on 31st December, 1979*

| Liabilities | | Rs. | Assets | | Rs. |
|---|---|---|---|---|---|
| Sundry Creditors | | 6,300 | Cash in Hand | | 540 |
| Salaries Outstanding | | 1,500 | Cash at Bank | | 2 630 |
| Capital : Balance in the beginning | 71,000 | | Sundry Debtors | 14,500 | |
| *Add*: Profit during the year | 16,275 | | *Less*: Provision for Bad & Doubtful Debts | 725 | 13,755 |
| | 87,275 | | Insurance Prepaid | | 85 |
| *Less*: Drawings | 5,245 | 82,030 | Stock in Hand | | 6,800 |
| | | | Freehold Land | | 10,000 |
| | | | Buildings | | 32,000 |
| | | | Machinery | 20,000 | |
| | | | *Less*: Depreciation | 2,000 | 18,000 |
| | | | Patents | 7,500 | |
| | | | *Less*: Depreciation | 1,500 | 6,000 |
| | | 89,830 | | | 89,830 |

**Illustration 14-8**

On 31st Dec., 1979 the following Trial Balance has been copied from the books of a merchant :

| | Rs. | | Rs. |
|---|---|---|---|
| *Dr. Balances* : | | *Dr. Balances* : | |
| Drawings A/c | 3,000 | Rates, Taxes and Ins. | 3,891 |
| Sundry Debtors | 19,100 | Advertisement | 2,264 |
| Interest on Loan | 200 | General Expenses | 4,489 |
| Cash in hand | 3,050 | Bills Receivable | 6,882 |
| Stock (1-1-1979) | 5,839 | *Cr. Balances* : | |
| Motor Vehicles | 9,000 | Capital Account | 30,000 |
| Cash at Bank | 4,555 | Sundry Creditors | 8,401 |
| Land and Buildings | 12,000 | Loan on Mortgage | 8,500 |
| Bad Debts | 625 | Bad Debts Reserve | 710 |
| Purchases | 67,458 | Sales | 1,11,243 |
| Sales Returns | 7,821 | Purchases Returns | 1,346 |
| Carriage Outwards | 1,404 | Discounts | 440 |
| Carriage Inwards | 3,929 | Bills Payable | 2,714 |
| Establishment | 8,097 | Rent Received | 250 |

Prepare Trading and Profit and Loss Account for the year ending on 31st Dec., 1979 and a Balance Sheet as on that date after considering the following matters :

1. Depreciate Land and Buildings at 5% and motor vehicles at 15%.

2. Interest on loan is @ 5% taken on 1st Jan., 1979.

3. Goods costing Rs. 600 were sent to a customer on sale or return for Rs. 700 on 30th Dec., 1979 and had been recorded in the books as actual sales.

4. Salaries amounting to Rs. 700 and Rates amounting to Rs. 400 are due.

5. There has been a fire on 1st Jan., 1980 destroying goods worth Rs. 200.

6. The Bad Debts Reserve is to be brought up to 5% on Sundry Debtors.

7. Stock in hand on 31st Dec., 1979 was valued at Rs. 6,850.

8. Goods costing Rs. 500 were taken away by the proprietor for his personal use, but no entry has been made in the books of accounts.

9. Prepaid Insurance amounted to Rs. 175.

10. Provide for Manager's commission at 5 per cent on net profits after charging such commission.

**Solution**

TRADING AND PROFIT AND LOSS ACCOUNT

*For the year ending 31st December, 1979*

Dr. Cr.

| Particulars | | Amount | Particulars | | Amount |
|---|---|---|---|---|---|
| | | Rs. | | | Rs. |
| To Opening stock | | 5,839 | By Sales | 1,10,543 | |
| To Purchases | 66,958 | | *Less* : Returns | 7,821 | 1,02,722 |
| *Less* : Returns | 1,346 | 65,612 | By Stock (6,250+600) | | 6,850 |
| To Carriage Inwards | | 3,929 | | | |
| To Gross Profit transferred to P. & L. A/c | | 34,192 | | | |
| | | 1,09,572 | | | 1,09,572 |
| To Int. on Loan | 200 | | By Gross Profit transferred from Trading A/c | | 34,192 |
| *Add* : Outstanding | 225 | 425 | By Discount | | 440 |
| To Bad Debts | 625 | | By Rent (Received) | | 250 |
| +Bad Debts Reserve (New) | 920 | | | | |
| | 1,545 | | | | |
| —Bad Debts Reserve (Old) | 710 | 835 | | | |
| To Carriage Outwards | | 1,404 | | | |
| To Establishment | | 8,097 | | | |
| To Rates, Taxes & Ins. | 3,891 | | | | |
| *Add* : Rates due | 400 | | | | |
| | 4,291 | | | | |
| *Less* : Insurance prepaid | 175 | 4,116 | | | |
| To Advertising | | 2,264 | | | |
| To General Expenses | | 4,489 | | | |
| To Salaries | | 700 | | | |
| To Depreciation : | | | | | |
| Land & Buildings @ 5% | | 600 | | | |
| Motor Vehicles @ 15% | | 1,350 | | | |
| To Manager's Commission | | 504·86 | | | |
| To Net Profit transferred to Capital A/c | | 10,097·14 | | | |
| | | 34,882 | | | 34,882 |

## BALANCE SHEET

*As on 31st December, 1979*

| Liabilities | | Amount | Assets | | Amount |
|---|---|---|---|---|---|
| | | Rs. | | | Rs. |
| Bills Payable | | 2,714 | Cash in hand | | 3,050 |
| Sundry Creditors | | 8,401 | Cash at Bank | | 4,555 |
| Outstanding Exp : | | | Bills Receivable | | 6,882 |
| Salaries | | 700 | Sundry Debtors | 18,400 | |
| Rates | | 400 | *Less* : Reserve | 920 | 17,480 |
| Manager's Commission owing | | 504·86 | Stock | | 6,850 |
| Loan on Mortgage | 8,500 | | Land and Buildings | 12,000 | |
| *Add* : Interest | 225 | 8,725 | *Less* : Dep. | 600 | 11,400 |
| Capital : | | | Motor Vehicles | 9,000 | |
| Balance on 1-1-1979 | 30,000 | | *Less* : Dep. | 1,350 | 7,650 |
| *Less* : Drawings | 3,500 | | Prepaid Expenses | | 175 |
| | 26,500 | | | | |
| *Add* : N.P. | 10,097·14 | 36,597·14 | | | |
| | | 58,042 | | | 58,042 |

**Note (I)** Following adjustment will be made for the goods sent on sale or return basis :

| | | | |
|---|---|---|---|
| Sales A/c | Dr. | 700 | |
| To Particular Debtors' A/c | | | 700 |

Thus both Sales and Debtors will be reduced by Rs. 700 each. So the Sales will be Rs. 1,11,243 − 700 = Rs. 1,10,543 and Sundry Debtors will be equal to Rs. 19,100 − 700 = Rs. 18,400. Closing stock will be equal to Rs. 6,250 + 600 = Rs. 6,850.

**Note (II)** No entry will be passed for the same in 1979 because it relates to 1980.

**Note (III)** Following entry will be passed :

| | | |
|---|---|---|
| Drawings A/c | 500 | |
| To Purchases A/c | | 500 |

Thus Rs. 500 will be added to Drawings and will be deducted from Purchases.

**Note (IV)** Manager's Commission will be calculated thus :

$$10,602 \times \frac{5}{105} = \text{Rs. } 504{\cdot}86.$$

**Standard Questions**

1. What are adjustments ? Why and how they are made ? Explain in detail.
2. Write short notes on :

   (*a*) Bad Debts Reserves ;

(*b*) Reserve for Discount on Creditors.

(*c*) Prepaid Expenses.

## Adjustments

**Practical**

1. The following balances of Nominal Accounts appear in the Trial Balance of Vijay Kumar relating to the accounts for the year ending 31st December, 1980 :

| | Rs. |
|---|---|
| Wages Account | 2,800 |
| Salaries Account | 4,000 |
| Rent Account | 500 |
| Advertising Account | 700 |

*Adjustments* : It is found that the expenses incurred during the year but outstanding are not recorded in the books are as follows :

Wages due but not paid Rs. 300, Salaries Rs. 200 are outstanding ; Unexpired Rent Rs. 200 ; Advertisement Expenses incurred in the last month Rs. 150 not entered in the books.

Show how these items would appear in the Trading and Profit and Loss Account and Balance Sheet.

2. The following items are found in the Trial Balance of Sudhir Kumar Chaturvedi on 31st December, 1980.

| | Rs. |
|---|---|
| Sundry Debtors | 10,200 |
| Bad Debts | 300 |
| Bad Debts Reserve | 600 |
| Capital | 20,000 |

*Adjustments* :

Rs. 200 became Bad Debts. You are required to make a reserve of 5% on Sundry Debtors for Bad and Doubtful Debts and 5% for discount. Charge interest @ 6% on Capital for one month. Show how these items would appear in the Profit and Loss A/c and Balance Sheet.

3. A company has a Bad Debt Reserve of Rs. 18,000. The amount of Book Debts at the end of the year amouut to Rs. 3,20,000. Out of this, Rs. 2,60,00 is good : Rs. 60,000 is doubtful on which a reserve of 20% is to be made. Show how these items will apear in the P. & L. A/c and Balance Sheet.

4. The following items are found in the Trial Balance of John on 31st December, 1980 :

| | | | |
|---|---|---|---|
| Debtors | ... | Rs | 16,000 |
| Bad Debts | ... | Rs. | 300 |
| Bad and Doubtful Debts Reserve, 1-1-1980 | | Rs. | ,00 |

You are to provide for the Bad and Doubtful Debts @ 5%. Give the necessary Journal entries and prepare the Bad Debts A/c, Bad and Doubtful Debts A/c, Profit and Loss A/c, Sundry Debtors A/c and a Balance Sheet preparing in the ledger upon the final adjustments.

5. The Books debts of business on 31st December, 1980 amounted to Rs. 15,600, of which Rs. 1,250 was estimated likely to be Bad Debts. On 10th September, 1980 Rs. 250 were received on account of a debt formerly written off as bad, and the bad debts actually written off in 1980 were Rs. 800.
Show how these items would appear in the P. &. L. A/c and Balance Sheet.

6. From the following Trial Balance (containing obvious errors), prepare a correct Trial Balance :

| | Dr. Rs. | Cr. Rs. |
|---|---|---|
| Purchases | 60,000 | — |
| Reserve Fund | 20,000 | — |
| Sales | — | 1,00,000 |
| Purchases Returns | 1,000 | — |
| Sales Returns | — | 2,000 |
| Opening Stock | 30,000 | — |
| Closing Stock | — | 40,000 |
| Expenses | — | 20,000 |
| Outstanding Expenses | 2,000 | — |
| Bank Balances | 5,000 | — |
| Assets | 50,000 | — |
| Debtors | — | 80,000 |
| Creditors | — | 30,000 |
| Capital | 94,000 | — |
| Suspense A/c being difference in Books | 10,000 | — |
| | 2,72,000 | 2,72,000 |

Ans. Total of T.B. Rs. 2,47,000.

7. The following balances were extracted from the books of Brijesh Chandra on 30th June, 1978.

| | | Rs. |
|---|---|---|
| Capital | ... | 24,500 |
| Drawings | ... | 2,000 |
| General Expenses | ... | 2,500 |
| Buildings | ... | 11,000 |
| Machinery | ... | 9,340 |
| Stock | ... | 16,200 |
| Power | ... | 2,240 |
| Taxes and Insurances | ... | 1,315 |
| Wages | ... | 7,200 |
| Debtors | ... | 6,280 |
| Creditors | ... | 2,500 |
| Bad Debts | ... | 550 |

| | | |
|---|---|---|
| Loan | ... | 7,880 |
| Sales | ... | 65,3·0 |
| Purchases | ... | 47,000 |
| Motor Car | ... | 2,000 |
| Bad Debts Reserve | ... | 900 |
| Commission (Cr.) | ... | 1,320 |
| Car Expenses | ... | 1,800 |
| Bills Payable | ... | 3,850 |
| Cash | ... | 80 |
| Bank Overdraft | — | 3,300 |
| Charity | — | 105 |

Prepare the final accounts for the year ended on 30th June, 1978 after giving effect to the following adjustments :

(a) Stock on 30th June 1978, was valued at Rs. 23,500.

(b) Write off a further Rs. 160 as bad debts and maintain the Bad Debts Reserve at 5 per cent on debtors.

(c) Depreciate Machinery at 10 per cent and Motor Car at 12 per cent.

(d) Provide Rs. 750 for outstanding interest on Loan and Overdraft.

(*Delhi Senior School Certificate Exam., 1979*)

Ans. G.P. Rs. 16,220 ; N.P. Rs. 9,780 ; and B.S. Rs. 50,560.

**8.** The following is the Trial Balance of a Merchant on the 31st December, 1979. Prepare Trading, Profit and Loss Account and the Balance Sheet as on 31st December, 1979 :

| | | Rs. | Rs. |
|---|---|---|---|
| Bills Payable | ... | | 700 |
| Land and Buildings | ... | 4,000 | |
| Stock of goods, 1st Jan. 1979 | ... | 4,000 | |
| Capital Account | | | 15,000 |
| Plant and Machinery | ... | 6,600 | |
| Bills Receivable | ... | 1,500 | |
| Purchases | ... | 13,000 | |
| Sales | ... | | 22,000 |
| Wages | ... | 3,500 | |
| Salaries | ... | 570 | |
| Rent and Taxes | ... | 200 | |
| General Office Expenses | ... | 500 | |
| Interest on Capital | ... | 800 | |
| Furniture and Fixtures | ... | 300 | |
| Cash at Bank | ... | 230 | |
| Discount | ... | 500 | |
| Creditors | ... | | 1,000 |
| Debtors | ... | 3,000 | |
| | | 38,700 | 38,700 |

In order to Prepare the final accounts provide for the following :

(*a*) Write off $7\frac{1}{2}$ per cent depreciation from Plant and Machinery and 5% on Land & Buildings.

(*b*) Provide 5 per cent for Bad Debts on Debtors.

**Ans.** G.P. Rs. 1,500 ; N.L. Rs. 1,915 and B.S. Rs. 14,785.

9. The following Trial Balance has been extracted from the books of Messrs Ram Prasad & Co., on 31st December, 1979.

| | | Rs. | |
|---|---|---|---|
| *Dr. Balances* : | | | |
| Freehold Premises | ... | 12,400 | |
| Sundry Debtors | ... | 25,300 | |
| Stock (1.1.79) | ... | 15,547 | |
| Cash at Bank | ... | 2,105 | |
| Petty Cash | ... | 88 | |
| Salaries | ... | 825 | |
| Fire Insurance | ... | 175 | |
| Trade Expenses | ... | 1,267 | |
| Bad Debts written off | ... | 381 | |
| Furniture and Fittings | ... | 450 | |
| Printing and Stationery | ... | 368 | |
| Rates and Taxes | ... | 151 | |
| Purchases | ... | 25,391 | |
| Carriage | — | 1,732 | |
| Returns Inwards | ... | 263 | |
| *Cr. Balances* : | | | |
| Sales | ... | | 33,394 |
| Returns Outwards | ... | | 155 |
| Sundry Creditors | ... | | 19,894 |
| Loan | ... | | 11,000 |
| Capital | ... | | 20,000 |

You are required to draw up Trading and Profit and Loss Account and a Balance Sheet after making the following adjustments :

(*a*) Rs. 50 from the Fire Insurance Premium to be carried forward to the next year.

(*b*) Salaries for December, 1979, amounting to Rs. 75, have not been paid.

(*c*) Furniture and Fittings are to be depreciated by 10 per cent and Freehold Premises by $2\frac{1}{2}$ per cent.

The Stock in hand on 31st December, 1979, was Rs. 2,787.

**Ans.** G.L. Rs. 4,597 ; N.L. Rs. 8,144 ; B.S. Rs. 42,825.

10. After passing the necessary Journal Entries for the adjustment given below, prepare Trading and Profit and Loss Account and Balance Sheet for the year ended 31st December, 1979, from the following balances extracted from the books of Govind Prasad :

| *Dr. Balances* : | | Rs. |
|---|---|---|
| Drawings | ... | 6,300 |
| Cash in hand and at Bank | ... | 3,870 |
| Bills Receivable | ... | 1,860 |
| Land and Buildings | ... | 32,580 |
| Furniture | ... | 5,130 |
| Manufacturing Wages | ... | 46,875 |
| Discount allowed | ... | 3,960 |
| Bank Charges | ... | 105 |
| Office Salaries | ... | 6,420 |
| Purchases | ... | 1,99,080 |
| Stock (January 1, 1979) | ... | 60,255 |
| Sales Returns | ... | 1,875 |
| Carriage Inwards | ... | 5,175 |
| General Expenses | ... | 7,680 |
| Plant & Machinery | ... | 21,645 |
| Rent, Rates and Taxes | ... | 3,630 |
| Sundry Debtors | ... | 65,745 |
| Bad Debts | ... | 1,380 |
| Insurance | ... | 705 |
| *Cr. Balances* : | | |
| Capital Account | ... | 1,50,000 |
| Discount Received | ... | 2,985 |
| Loan Account | ... | 15,000 |
| Purchases Returns | ... | 1,455 |
| Sales | ... | 2,81,505 |
| Reserve for Bad Debts | ... | 4,620 |
| Sundry Creditors | ... | 18,675 |

Closing stock on 31st December, 1979 was valued at Rs. 63,705. Depreciate Plant and Machinery by 10% and Furniture by 5%. Raise the Reserve for Bad Debts to Rs. 7,500. Adjust insurance Rs. 180 and interest on Loan Rs. 225 due but not put through the Books.

**Ans.** G.P. Rs. 33,405 ; N.P. Rs. 7,194 ; B.S. Rs. 1,84,794.

**11.** The following is the Trial Balance of Rustamji as on 31st March, 1980. You are required to prepare the Trading and Profit and Loss Account for the year ended 31st March, 1980 and the Balance Sheet as on that date. R. Rustamji charges interest at 5% on the capital invested in the business:

| | | *Dr. Bal.* | *Cr. Bal.* |
|---|---|---|---|
| | | Rs. | Rs. |
| Opening Stock | ... | 30,000 | |
| Sundry Debtors | ... | 25,000 | |
| Sundry Creditors | ... | | 15,000 |
| B. R. | ... | 57,500 | |
| B. P. | ... | | 5,500 |
| Purchases | ... | 90,000 | |
| Sales | ... | | 1,72,000 |
| Returns | ... | 750 | 550 |

| | | | |
|---|---|---|---|
| | | | 300 |
| Discounts | ... | 250 | |
| Plant & Machinery | ... | 35,000 | |
| Furniture | ... | 3,500 | |
| Wages | ... | 15,000 | |
| Salaries | ... | 18,000 | |
| Freehold Premises | ... | 50,000 | |
| Capital A/c | ... | | 50,000 |
| Carriage Inwards | ... | 1,200 | |
| Carriage Outwards | ... | 1,500 | |
| Bad Debts Reserve | ... | | 550 |
| Telephone & Electric Charges | ... | 1,000 | |
| Cash at Bank | ... | 1,200 | |
| Cash in hand | ... | 500 | |
| Commission | ... | | 14,500 |
| Misc. Revenue gains | ... | | 3,500 |
| Bank Overdraft | ... | | 20,000 |
| Repairs | ... | 1,500 | |
| | | 2,81,900 | 2,81,900 |

The following additional information is supplied :

1. Closing stock amounted to Rs. 50,000.
2. Depreciate Plant and Machinery at 10% and Furniture and Fixtures at 20%.
3. Bad Debts Reserve to be adjusted to 2½% on Sundry Debtors.
4. Outstanding Wages Rs. 1,000 and Salaries Rs. 500.
5. Interest on Bank Overdraft at 5% due for one year but not paid.

**Ans.** G.P. Rs. 84,600 ; N.P. Rs 72,375 ; B.S. Rs. 1,67,875.

**12.** The following balances appeared in the books of a merchant on 31st December, 1979 :

| | | Rs. |
|---|---|---|
| Buildings | ... | 70,000 |
| Motors Trucks | ... | 12,000 |
| Furniture | ... | 1,640 |
| Debtors | ... | 15,600 |
| Creditors | ... | 18,852 |
| Stock | ... | 15,040 |
| Cash in hand | ... | 988 |
| Cash at Bank | ... | 14,534 |
| Bills Receivable | ... | 5,844 |
| Bills Payable | ... | 6,930 |
| Purchases | ... | 85,522 |
| Sales | ... | 1,21,850 |
| Capital | ... | 92,000 |
| Carriage Inwards | ... | 1,291 |
| Carriage Outwards | ... | 800 |

| | | |
|---|---|---|
| Reserve for Bad Debts | .. | 1,320 |
| Establishment | ... | 2,135 |
| Insurance | ... | 783 |
| Interest (Cr.) | ... | 340 |
| Bad Debts | ... | 613 |
| Audit Fees | ... | 400 |
| General Charges | ... | 3,950 |
| Travelling Expenses | ... | 325 |
| Discount (Dr.) | ... | 620 |
| Investments | ... | 8,922 |
| Sales Returns | ... | 285 |

Prepare Trading and Profit and Loss Account for the year ended 31st December, 1979 and a Balance Sheet on that date after taking the following matters into consideration :

(*a*) Stock on 31st December, 1979, amounted to Rs. 15,500.
(*b*) Depreciate Motor Trucks 20% and Furniture 10%.
(*c*) Write off further Rs. 100 as Bad Debts and maintain the Bad Debts Reserve at 5% on Debtors.
(*d*) Unexpired Insurance Rs. 150.
(*e*) Interest accrued on Investment Rs. 120.

**Ans.** G.P. Rs. 35,212 ; N.P. Rs. 24,077 ; B.S. Rs. 1,41,859.

13. From the following Ledger balances prepare Trading and Profit and Loss Account for the year ended 30th September, 1980, and a B/S as on that date :

| | Rs. |
|---|---|
| Rama's Capital A/c ... | 1,19,400 |
| Rama's Drawings A/c ... | 10,550 |
| Bills Receivable ... | 9,500 |
| Plant & Machinery ... | 28,800 |
| Sundry Debtors (Including Madan's dishonoured bill Rs. 1,000) ... | 62,000 |
| Loan A/c Cr. at 6% ... | 20,000 |
| Wages (Manufacturing) ... | 40,970 |
| Returns Inwards ... | 2,780 |
| Purchases .. | 2,56,590 |
| Sales ... | 3,56,430 |
| Commission Received ... | 5,640 |
| Rent and Taxes ... | 5,620 |
| Stock on 1st Oct., 1979 ... | 89,680 |
| Salaries ... | 11,000 |
| Travelling Expenses ... | 1,880 |
| Insurance (Including Rs. 300 p.a. paid Up to 31st March, 1980) ... | 400 |

| | Rs. |
|---|---|
| Cash ... | 530 |
| Repairs and Renewals ... | 3,370 |
| Bank ... | 18,970 |
| Interest and Discount (Dr.) ... | 5,870 |
| Bad Debts ... | 3,620 |
| Sundry Creditors ... | 59,630 |
| Fixtures and Fittings ... | 8,970 |

Stock in hand on 30th Sept., 1980 was Rs. 1,28,960. Write off half of Madan's dishonoured bill. Depreciate Plant and Machinery by 5% and Fixtures and Fittings by 10%.

**Ans.** G.P. Rs. 95,370 ; N.P. Rs. 66,563 and B.S. Rs. 2,55,043.

**14.** After passing the necessary adjustment entries prepare Trading A/c, Profit and Loss A/c for the year and Balance Sheet as on 31st December, 1979 from the following Trial Balance of a manufacturer :

| | Rs. | | Rs. |
|---|---|---|---|
| *Dr. Balances* : | | *Dr. Balances* : | |
| Drawings A/c ... | 15,000 | Repairs and Replacements ... | 1,800 |
| Freehold Land and Premises ... | 90,000 | Work Extension A/c .. | 7,500 |
| Plant and Machinery... | 40,000 | Bad Debts ... | 1,200 |
| Loose Tools ... | 3,000 | Advertisement ... | 500 |
| Bills Receivable ... | 3,000 | Sales Returns ... | 2,000 |
| Stock ... | 40,000 | Gas & Water ... | 200 |
| Material Purchased ... | 51,000 | Oil Grease and Waste.. | 600 |
| Wages ... | 20,000 | Furniture and Fixtures ... | 1,200 |
| Carriage Inwards ... | 1,000 | General Expenses ... | 800 |
| Carriage Outwards ... | 500 | Printing & Stationery ... | 450 |
| Coal & Coke ... | 5,000 | *Cr. Balances* | |
| Salaries ... | 5,000 | Capital A/c ... | 2,03,000 |
| Rent, Rates and Taxes ... | 2,800 | Bills Payable ... | 3,800 |
| Discount and allowances ... | 1,500 | Sundry Creditors ... | 40,000 |
| National Bank ... | 25,000 | Purchases Returns ... | 2,650 |
| Cash in hand ... | 400 | Goods Sold ... | 1,15,000 |
| Sundry Debtors ... | 45,000 | | |

Write off depreciation on Plant and Machinery at 5% and loose tools at 15% and furniture and fixtures at 5%. Stock in hand on 31st Dec., 1979 amounted to Rs. 60,000. Provide $2\frac{1}{2}$% discount on sundry debtors and 5% for doubtful debts. Rs. 1,500 was due for wages and Rs. 450 for salaries for the month of December. The last bill of Rs. 400 for Taxes was for the half year ending 31st March, 1980.

**Ans.** G.P. Rs. 56,350 ; N.P. Rs. 35,721·25 and B.S. Rs. 2,69,471·25.

**15.** From the following balances extracted from the Book of Seth Damodar Swarup, prepare a Trading and Profit and Loss Account for the year ended 31st December, 1979, and a Balance Sheet as on that date :

| | Rs. |
|---|---|
| Capital A/c ... | 2,80,000 |
| Drawings Account ... | 14,500 |
| Office Salaries ... | 19,860 |
| Plant & Machinery ... | 1,28,400 |
| Purchases ... | 2,92,620 |
| Purchases Returns ... | 4,290 |
| Sales ... | 5,72,140 |
| Sales Returns ... | 3,210 |
| Loan Account (Cr.) ... | 85,000 |
| Wages (Mfg.) ... | 1,03,140 |
| Buildings ... | 1,47,480 |
| Interest (Dr.) ... | 4,250 |
| Stock (Jan. 1, 1979) ... | 91,[illegible]20 |
| General Charges ... | 10,670 |
| Advertising ... | 4,300 |

| | Rs. |
|---|---|
| Discount (Cr.) ... | 780 |
| Reserve for Bad Debts ... | 2,500 |
| Insurance and Taxes ... | 4,930 |
| Furniture ... | 2,000 |
| Repairs ... | 6,980 |
| Manufacturing Expenses ... | 4,710 |
| Bad Debts ... | 2,190 |
| Sundry Debtors ... | 62,840 |
| Sundry Creditors ... | 17,210 |
| Cash in hand ... | 3,270 |
| Cash at Bank ... | 22,230 |
| Bills Receivable ... | 17,860 |
| Coal and Power ... | 12,760 |
| Charity ... | 2,500 |

The following adjustments have to be made before closing the accounts :

(*a*) Stock in hand on 31st December, 1979, was Rs. 1,06,700. (*b*) Depreciation on Plant and Machinery and Furniture at 10% and on the Buildings at 5% to be written off. (*c*) Reserve for Bad Debts to be increased to Rs. 4,000. (*d*) Wages and Salaries remained unpaid to the extent of the Rs. 3,000 and 4,000 respectively. (*e*) Interest on loan at 6% has been paid only for [illegible] months.

Ans. Gross Profit Rs. 1,72,470 ; Net Profit Rs. 89,956 ; Total of Balance Sheet Rs. 4,66,366.

**16.** The following Trial Balance was extracted from the books of Ram Kishore as on 31st December, 1979 :

TRIAL BALANCE

| | Rs. | Rs. |
|---|---|---|
| Capital Account ... | | 9,000 |
| Drawings Account ... | 700 | |
| Purchases ... | 5,221 | |
| Purchases Returns ... | | 424 |
| Sales ... | | 14,984 |
| Sales Returns ... | 182 | |
| Stock (1st January) ... | 1,146 | |
| Salaries ... | 628 | |
| Manufacturing Wages ... | 3,856 | |
| Leasehold Premises ... | 2,500 | |
| Rent, Rates and Insurance ... | 694 | |
| Carriage Inwards ... | 231 | |
| Carriage Outwards ... | 324 | |
| Office Expenses ... | 952 | |
| Plant and Machinery ... | 2,400 | |
| Bad Debts Reserve (1st January) ... | | 324 |

| | | | |
|---|---|---|---|
| Factory Fuel | ... | 795 | |
| Discount Account (Balance) | ... | | 18 |
| Bills Receivable | ... | 124 | |
| Sundry Debtors | ... | 3,897 | |
| Sundry Creditors | ... | | 1,698 |
| Cash at Bank | ... | 1,240 | |
| Cash in Hand | ... | 221 | |
| Office Furniture | — | 350 | |
| Travellers' Salaries and Commission | | 987 | |
| | Total | 26,448 | 26,448 |

You are required to prepare Trading and Profit and Loss Account for the year ended 31st December, 1979 and, a Balance Sheet as on that date.

Before preparing the accounts the following adjustments are necessary :

(1) Depreciation is to be written off as follows :
Leasehold Premises 5% ; Plant and Machinery 10% ; Office Furniture 5%.

(2) Reserve for Bad Debts to be made up to Rs. 400.

(3) Value of Stock as on 31st Dec., 1979 was Rs. 1,429.

(4) Three days' wages amounting to Rs. 57 had accrued due, but have not been paid.

(5) Unexpired Insurance Premium amounting to Rs. 68 is to be carried forward to the next year.

**Ans.** G.P. Rs. 5,349 ; N.P. Rs. 1,391·50 ; B.S. Rs. 11,446 50.

**17.** Prepare Trading and Profit and Loss Account and Balance Sheet from the following particulars as on 30th June, 1979 :

| | | Rs. |
|---|---|---|
| Chandrika Prasad's Capital Account | ... | 2,10,000 |
| Chandrika Prasad's Drawings Account | ... | 13,000 |
| Purchases | ... | 80,000 |
| Investments in Govt. Securities | ... | 20,000 |
| Interest on above | ... | 1,000 |
| Wages | ... | 34,000 |
| Sundry Debtors | ... | 70,300 |
| Legal Expenses | ... | 4,000 |
| Cash in hand | ... | 1,200 |
| Cash at Bank | ... | 11,000 |
| Freehold Property | ... | 60,000 |
| Machinery and Plant | ... | 1,20,000 |
| Bills Payable | ... | 6,500 |
| Bills Receivable | ... | 7,000 |

| | | |
|---|---|---|
| Salaries | ... | 13,000 |
| Office Expenses | ... | 3,000 |
| Discount Account | ... | 4,500 |
| Sales | ... | 2,20,000 |
| Stock on 1st July, 1978 | ... | 45,000 |
| Office Rent | ... | 2,400 |
| Bad Debts | ... | 1,700 |
| Insurance | ... | 1,500 |
| Gas and Fuel | ... | 2,700 |
| Freight and Carriage | ... | 3,500 |
| Loose Tools | ... | 4,500 |
| Patent Rights—5 year unexpired | ... | 6,000 |
| Factory Lighting | ... | 5,000 |
| Sundry Creditors | ... | 50,000 |
| Returns Inwards | ... | 3,200 |
| Returns Outwards | ... | 4,000 |
| Creditors for Loans | ... | 30,000 |
| Office Furniture and Fittings | ... | 5,000 |

Stock on 30th June, 1979, was 50,000. There were outstanding liabilities in respect of Wages Rs. 2,400. Salaries Rs. 600 and Office Rent Rs. 400. Insurance was paid in advance to the extent of Rs. 450. Depreciate Freehold Property by 2%. Plant and Machinery by 10%. Office furniture by 5%. Patent Rights by 20% and Loose tools by 25%. Write off Rs. 300 as Bad Debts, and provide 5% on Debtors as Reserve for Doubtful Debts.

Ans. G.P. Rs. 98,200, N.P. Rs. 48,975 and B.S. Rs. 3,35,875.

18. From the following Trial Balance of Ramesh Chandra as on 30th June, 1979, prepare Trading and Profit and Loss Account for the year ended 30th June, 1979 and a Balance Sheet as on that date :

| | | Rs. | Rs. |
|---|---|---|---|
| Ramesh Chandra's Capital | ... | | 1,08,090 |
| Stock on 1st July, 1978 | ... | 46,800 | |
| Sales and Sales Returns | ... | 8,600 | 2,89,600 |
| Purchases and Purchases Returns | ... | 2,43,100 | 5,800 |
| Freight and Carriage | ... | 18,600 | |
| Rent and Taxes | ... | 5,700 | |
| Salaries and Wages | ... | 9,300 | |
| Sundry Debtors and Creditors | ... | 24,000 | 14,800 |
| Bank Loan at 6% | ... | | 20,000 |
| Bank Interest | ... | 900 | |
| Printing and Advertising | ... | 14,600 | |
| Income from Investment | ... | | 3,690 |
| Cash at Bank | ... | 8,200 | |
| Discounts receivable | ... | | 250 |
| Investments | ... | 5,000 | |
| Furniture and Fittings | ... | 1,800 | |
| Discount Payable | ... | 7,340 | |
| General Expenses | ... | 3,610 | |

| | | | |
|---|---|---|---|
| Audit Fees | ... | 500 | |
| Insurance | ... | 800 | |
| Travelling Expenses | ... | 2,130 | |
| Postage and Telegrams | ... | 870 | |
| Cash in hand | ... | 380 | |
| Deposit with Kuber Chand at 5% | ... | 30,000 | |
| Drawings Account | ... | 10,000 | |
| | | 4,42,230 | 4,42,230 |

The Stock on 30th June, 1979, was Rs. 78,600, 50% of Printing and Advertising is to be carried forward as a charge in the following year. Depreciate Furniture and Fittings by 10%, Create 5% reserve on Debtors. Reserve 2½% for Discount on Debtors and Creditors. Insurance prepaid amounts to Rs. 200 and salaries outstanding Rs. 500 and carriage outstanding Rs. 100. Bring into account the full year's interest on deposit with Kuber Chand.

Ans. G.P. Rs. 56,800 ; N.P. Rs. 21,650 ; B.S. Rs. 1,55,144.

**19.** From the following Trial Balance of Abdul Rehman, prepare Trading and Profit and Loss Account for the year ended 31st December, 1979 and a Balance Sheet as on that date :

| DEBIT BALANCES | Amount | CREDIT BALANCES | Amount |
|---|---|---|---|
| | Rs. | | Rs. |
| Plant and Machinery | 19,720 | Abdul Rehman's Capital | 80,000 |
| Manufacturing Wages | 34,965 | Creditors Account | 56,160 |
| Salaries | 15,965 | Bank Loan | 10,000 |
| Fixtures and Fittings | 9,480 | Purchases Returns | 1,140 |
| Carriage Inwards | 1,980 | Sales | 2,46,850 |
| Carriage Outwards | 2,150 | | |
| Freehold Works | 25,000 | | |
| Manufacturing Expenses | 9,455 | | |
| Insurance and Taxes | 4,175 | | |
| Goodwill | 30,000 | | |
| General Expenses | 8,142 | | |
| Factory Fuel and Power | 1,276 | | |
| Sundry Debtors | 78,140 | | |
| Lighting Factory | 986 | | |
| Stable Expenses for Distribution | 2,473 | | |
| Stock, 1st, Jan., 1979 | 34,170 | | |
| Horses and Carts | 5,165 | | |
| Purchases | 97,165 | | |
| Sales Returns | 3,170 | | |
| Discount | 928 | | |
| Bad Debts | 1,485 | | |
| Interest and Bank Charges | 475 | | |
| Cash at Bank | 7,540 | | |
| Cash in hand | 145 | | |
| | 3,94,150 | | 3,94,150 |

*Adjustments* :

(*a*) Stock on 31st December, 1979, Rs. 29,630.

(*b*) Depreciation—Plant and Machinery 10%. Fixtures and Fittings 5% ; Horses and Carts Rs. 1,000.

(*c*) Bring Reserve for Bad and Doubtful Debts to 5%.

(*d*) Unexpired Insurance, Rs. 300 and Taxes Rs. 190.

(*e*) A Commission of 1% on the Gross Profit to be provided for Works Manager.

**Ans.** G.P. Rs. 94,453 ; N.P. Rs. 50,852·47 ; B.S. Rs. 1,97,957.

**20.** The following is the Trial Balance of S. Sayal and D. Dayal on 31st December, 1979.

| | | *Dr.* Rs. | *Cr.* Rs. |
|---|---|---|---|
| S. Sayal's Capital on January 1, 1979 | ... | | 12,000 |
| D. Dayal's Capital | ... | | 9,000 |
| Machinery and Plant | ... | 10,000 | |
| Stock on 1st January, 1979 | ... | 5,500 | |
| Purchases | ... | 22,000 | |
| Salaries | ... | 1,000 | |
| Wages | ... | 4,500 | |
| Sales | ... | | 35,000 |
| Debtors | ... | 9,000 | |
| Creditors | ... | | 4,000 |
| Carriage | ... | 470 | |
| Rent, Rates, Taxes, etc. | ... | 1,230 | |
| General Expenses | ... | 1,000 | |
| Cash at Bank | ... | 4,300 | |
| Repairs | ... | 250 | |
| Coal and Coke | ... | 1,100 | |
| Bills Payable | ... | | 750 |
| Bills Receivable | ... | 375 | |
| Cash in hand | ... | 25 | |
| | Total | 60,750 | 60,750 |

The Stock at the end of year amounted to Rs. 6,000. Prepare Trading and Profit and Loss Account and the Balance Sheet after taking the following into consideration :

(*a*) Each partner is entitled to 5% interest on capital. (*b*) The Profits and Losses are to be divided two-thirds to S. Sayal and one-third to D. Dayal. (*c*) 7½% for Depreciation is to be written off on Machinery and Plant. (*d*) 2½% Discount is to be allowed off on Debtors and Creditors. (*e*) Rs. 400 is to be reserved for Bad Debts. (*f*) Rent, Rates, etc., amounting to Rs. 300 are paid in advance for the coming year.

**Ans.** G.P. Rs. 7,430 ; N.P. Rs. 1,935 ; B.S. Rs. 28.625.

**21.** From the following Trial Balance extracted from the books of M/s Shyam and Co. prepare Trading and Profit and Loss Account for the year ending 31st Dec, 1978 and a Balance Sheet as on that date.

TRIAL BALANCE

| *Debit* | *Rs.* | *Credit* | *Rs.* |
|---|---|---|---|
| Stock (1-1-1978) | 46,800 | Capital | 1,08,000 |
| Sales Returns | 8,000 | Sales | 2,89,000 |
| Purchases | 2,43,000 | Returns Outward | 5,700 |
| Freight-in | 18,600 | Trade Creditors | 14,800 |
| Rent and Taxes | 5,700 | Bank Loan @10% | 20,000 |
| Salaries and Wages | 9,300 | Income from Investment | 3,600 |
| Trade Debtors | 24,000 | Discount Received | 2,250 |
| Bank Interest | 1,000 | | |
| Printing and Advertising | 14,600 | | |
| Cash at Bank | 8,300 | | |
| Discount Allowed | 1,340 | | |
| Investments | 11,000 | | |
| Furniture | 3,800 | | |
| General Expenses | 3,610 | | |
| Audit Fees | 500 | | |
| Insurance | 800 | | |
| Travelling Expenses | 3,000 | | |
| Fixed Assets | 30,000 | | |
| Drawings | 10,000 | | |
| | 4,43,350 | | 4,43,350 |

The following adjustments are to be made :

(*i*) Stock was valued on 31-12-78 at Rs. 75,000.

(*ii*) Half of the Printing and Advertising expenditure is to be carried forward.

(*iii*) Depreciate Fixed Assets @ 5% and Furniture @ 10%.

(*iv*) Provide 5% for Doubtful debts on debtors.

(*v*) The Loan from the bank was taken on 1st April, 1978.

[*Delhi Senior School Certificate Exam., 1979* (*c*)]

**22.** *A, B, C* are in the partnership sharing Profits and Losses in the proportion of 3 : 2 : 1. *B* and *C* are to get salaries of Rs. 100 P.M. respectively and interest @ 5% p a. is to be allowed on Capitals. Trial Balance as on 31st December, 1979 was as follows :

| Dr. Balances : | Rs. | Dr. Balances : | Rs. |
|---|---|---|---|
| A's Drawings A/c | 2,500 | Plant and Machinery | 10,000 |
| B's ,, ,, | 3,000 | Furniture and Fittings | 1,000 |
| C's ,, ,, | 1,000 | Sundry Debtors | 85,000 |
| Purchases | 1,51,000 | Cash | 3,000 |
| Returns Inwards | 9,000 | *Cr. Balances* : | |
| Rent | 2,200 | A's Capital A/c | 20,000 |
| Wages | 33,000 | B's ,, ,, | 15,000 |
| Partner's Salary | 2,750 | C's ,, ,, | 10,000 |
| Salaries | 5,500 | Sales | 2,30,000 |
| Office Expenses | 2,200 | Bad Debts Reserve | 750 |
| Insurance (paid on 30th April, 1980) | 600 | Sundry Creditors | 71,000 |
| Stock (1st Jan., 1979) | 35,000 | | |

Write off Rs. 5,000 for bad debts and maintain a 5% Reserve on Sundry debtors. Depreciate Plant and Machinery by 10% and Furniture and Fittings by 5%. Stock an 31st December, 1979 was worth Rs. 37,000. Expenses for Rent, Wages and Salaries and office are uniform throughtout the year and those for December, 1979 have not been paid. Rs. 200 of the insurance premium relates to the year 1980. Prepare final accounts for 1979.

**Ans.** G.P. Rs. 36.000 ; N.P. Rs. 10,850 and B.S. Rs. 1,26,500.

**23.** The following are the balances extracted on 31st Dec. 19... .. from the books of *A* and *B* who are in the partnership as merchants sharing profits and losses in the proportion of 2/3rds and 1/3rd respectively.

| *Balances* : | Rs. | *Balances* : | Rs. |
|---|---|---|---|
| A's Capital | ... 20,000 | Sales Returns | ... 2,000 |
| A's Drawings | ... 3,000 | Discount (Cr.) | ... 2,000 |
| B's Capital | ... 10,000 | General Expenses | ... 6,000 |
| B's Drawings | ... 2,000 | Salaries | ... 9,000 |
| Furniture and Fittings | ... 2,600 | Commission (Dr.) | ... 2,200 |
| Bank Overdraft | ... 4,200 | Carriage on Purchases | ... 1,800 |
| Creditors | ... 11,000 | Reserve for Bad and Doubtful Debts | ... 2,000 |
| Business Premises | ... 20,000 | | |
| Stock (1.1.19...) | ... 22,000 | | |
| Debtors | ... 18,000 | | |
| Rent from Tenants | ... 1,000 | | |
| Purchases | ...1,10,000 | | |
| Sales | ...1,50,000 | | |
| Discount (Dr.) | ... 1,600 | | |

Stock in hand on 31st Dec., 19...was estimated at Rs. 20,000. Provide a further Reserve of Rs. 500 for Bad and Doubtful debts. Write off Depreciation—Business premises Rs. 300 and Furniture and Fittings Rs. 260. Prepare Trading A/c, Profit

and Loss A/c and Balance Sheet of the partnership as on 31st Dec., 19 ..

**Ans.** G.P. Rs. 34,260, N.P. Rs. 17,400 and B.S. 57,600.

**24.** *A* and *B* are in the sharing Profits and Losses in proportion of 60% and 40%. The undermentioned Trial Balance was extracted from their Books on 31st December, 1979.

| | | Rs. | | | Rs. |
|---|---|---|---|---|---|
| *Dr. Balances* : | | | *Dr. Balances* : | | |
| *A*'s Drawings | ... | 4,000 | Telephone | — | 500 |
| *B*'s Drawings | ... | 3,000 | Salaries | ... | 12,250 |
| Goodwill | ... | 10,000 | Printing and Stationery | ... | 740 |
| Plant & Machinery | ... | 40,000 | Commission | ... | 5,000 |
| Office Furniture | ... | 5,000 | Travelling Expenses | ... | 2,000 |
| Sundry Debtors | ... | 40,500 | Carriage | ... | 5,800 |
| Purchases | ... | 85,000 | Motor Vans | ... | 20,860 |
| Returns Inward | ... | 1,500 | *Cr. Balances* : | | |
| Rent | ... | 3,750 | *A*'s Capital | | 65,000 |
| Postage & Telegrams | ... | 500 | *B*'s Capital | ... | 40,000 |
| Advertisements | ... | 9,000 | Sundry Creditors | ... | ,14,000 |
| Cash | ... | 11,500 | Sales | ... | 160,000 |
| Stock (1st Jan.) | ... | 16,000 | Returns Outward | ... | 2,500 |
| Wages | ... | 14,000 | Bills Payeble | ... | 8,900 |

You are required to prepare the Trading and Profit and Loss A/c for the year ended 31st December, 1979 and a Balance Sheet as on that date. The following adjustments are required to be made : (*a*) Write off Rs. 250 from the office furniture, 10% from Plant & Machinery and 20% from Motor Vans, (*b*) Raise a reserve of 5% on the Sundry debtors, (*c*) Stock in trade amounted to Rs. 12,500, (*d*) Rent is payable at the rate of Rs. 300 P. M., (*e*) Write of 1/5 of the advertising expenses, (*f*) Partners are entitled to interest on capital at 5% per annum and *B* is allowed a partnership Salary of Rs. 1,800 per annum.

**Ans.** G.P. Rs. 52,700, N.P. Rs 8,813 and B.S. Rs. 1,37,263.

**25.** The following are the Ledger Balances of *ABC* & Co. as on 31st Dec., 1979 :

| *Balances* : | | Rs. | *Balances* : | | Rs. |
|---|---|---|---|---|---|
| Sundry Debtors | ... | 6,000 | Sales | ... | 25 000 |
| General Expenses | ... | 1,200 | Sundry Creditors | ... | 1,000 |
| Factory Rent | ... | 250 | Interest Received | ... | 120 |
| Manufacturing Wages | ... | 2,000 | Purchases Returns | ... | 200 |
| Purchases | ... | 10,000 | Discount Received | ... | 180 |
| Furniture and Fixtures | ... | 500 | Reserve for Bad Debts | ... | 200 |
| Carriage and freight on raw material | ... | 500 | *A's* Capital (Cr.) | ... | 10,000 |
| Sales Returns | ... | 300 | *B's* ,, | ... | 10,000 |
| Horses, Carts and Vehicles | ... | 2,000 | Plant and Machinery | ... | 6,000 |
| Advance on Mortgage (Dr.) | ... | 2,000 | Office Premises | ... | 2,000 |
| Travelling Expenses | ... | 600 | Bank Balance | ... | 2,300 |
| Office Salaries | ... | 2,200 | Cash | ... | 10 |
| *A's* Drawings | ... | 1,000 | Stock (1-1-1979) | ... | 5,000 |
| *B's* Drawings | ... | 1,000 | *C's* Capital (Dr.) | ... | 1,000 |
| *C's* Drawings | ... | 500 | Discount allowed | ... | 220 |
| | | | Rates, Taxes and Insurance | ... | 120 |

Prepare Trading A/c, Profit and Loss A/c and Balance Sheep for the year ending 31st Dec., 1979. Stock in hand on 31st Dec., 1979 amounted Rs. 7,500. According to partnership deed 5% interest on partner's Capitals is to be credited or charged as the case may be and the profits are to be divided as to *A* 2/5, *B* 2/5 and *C* 1/5. Write off 5% from Plant and Machinery and 10% from Horses, Carts and Vehicles and Furniture and Fixtures. Increase the Reserve for Bad debts to 5% for the value of debtor.

Ans. G.P. Rs. 14,650 ; N.P. Rs. 9,010 ; and B.S. Rs. 27,460.

**26.** George Brown carries on a merchandising business. As on December 31st, 1979 his books showed the following balances :

| | Rs. |
|---|---|
| Balance at Bank (in Brown's favour) | 58,410 |
| Bad debts written off | 2,930 |
| Trade Creditors | 72,510 |
| Capital G. Brown | 2,15,690 |
| Discount allowed | 4,580 |
| Discount received | 8,450 |
| Drawings G. Brown | 43,240 |
| Insurance | 2,690 |
| General Expenses | 17,480 |
| Light and Heat | 4,200 |
| Office Equipment | 12,700 |
| Petty cash balance in hand | 240 |
| Postage and Telephone | 4,570 |
| Printing and Stationery | 6,520 |

| | |
|---|---|
| Purchases | 14,84,030 |
| Rent Paid | 12,000 |
| Salaries | 56,190 |
| Sales | 18,63,250 |
| Debtors | 1,69,270 |
| Stock on January 1st, 1979 | 1,32,450 |
| Trade subscriptions | 600 |
| Travellers' Commission | 75,060 |
| Travellers' Expenses | 12,740 |

(1) Provision is required for the following liabilities and accrued expenses as on December 31st, 1979 :

| | Rs. |
|---|---|
| (*i*) Accounting charges | 2,100 |
| (*ii*) Light and Heat | 1,200 |
| (*iii*) Rent Payable | 4,000 |
| (*iv*) Travellers' Commission | 6,200 |
| (*v*) Travellers' Expenses | 930 |

(2) Stock on December 31st, 1979 was valued at Rs. 1,14,750.

(3) Depreciation of the Office Equipment is to be provided at 10 per cent.

(4) Provision of Rs. 3,800 is to be made in respect of doubtful debts

You are required to prepare :

(*a*) Trading and Profit and Loss Account for the year ended December 31st, 1979 ; and

(*b*) A Balance Sheet as on that date.

Ans. G.P. Rs. 3,01,520 ; N.P. Rs. 90,910 ; B.S. Rs. 3,50,300.

27. Prepare a Trading and Profit and Loss Account and the Balance Sheet as on 31st December, 1979 from the following Trial Balance of a manufacturer :

| *Dr. Balances* : | *Rs.* | *Cr. Balances* : | *Rs.* |
|---|---|---|---|
| Drawings Account | 15,000 | Capital Account | 2,03,000 |
| Freehold Land & Premises | 97,500 | Bills Receivable | 3,000 |
| Plant and Machinery | 40,000 | Sundry Creditors | 40,000 |
| Loose Tools | 3,000 | Purchases Returns | 2,650 |
| Bills Receivable | 3,000 | Sales | 1,15,000 |
| Stock | 40,000 | | |
| Material Purchased | 51,000 | | |
| Wages | 20,000 | | |
| Carriage Inwards | 1,000 | | |
| Carriage Outwards | 500 | | |
| Coal and Coke used in Factory | 5,000 | | |

*Debit Balances* :

| | |
|---|---|
| Salaries | 5,000 |
| Rent, Rates and Taxes | 2,800 |
| Discount and Allowances | 1,500 |
| Cash at Bank | 25,000 |
| Cash in hand | 400 |
| Sundry Debtors | 45,000 |
| Repairs | 1,800 |
| Bad Debts | 1,200 |
| Advertisement | 500 |
| Sales Returns | 2,000 |
| Gas and Water used in Factory | 200 |
| Oil, Grease and Waste consumed in Factory | 600 |
| Furniture and Fixtures | 1,200 |
| General Expenses | 800 |
| Printing and Stationery | 450 |

Write off depreciation on Plant and Machinery at 5% ; Loose Tools at 15%; and Furniture and Fixtures at 5%. Stock in hand on 31st December, 1979 amounted Rs. 60,000. Provide 2½% for discount on Sundry Debtors and 5% for doubtful debts. Rs. 1,500 was due for wages and Rs. 450 for salaries for the month of December.

Ans. G.P. Rs. 56,350; N.P. Rs. 35,521·25; B.S. Rs. 2,69,271·25.

28. Mr. *A* commenced business on 1st January, 1977, introducing the following as initial Capital :

Bank Balance Rs. 8,000 ; Land Rs. 20,000 ; Buildings Rs. 11,200; Furniture Rs. 800 ; Motor Van Rs. 2,400.

In addition to above, the following balances have been extracted from his books of accounts :

| | Rs. | | Rs. |
|---|---|---|---|
| Motor expenses | 6,400 | Telephone | 816 |
| Sundry Debtors | 7,888 | Insurance | 672 |
| Sales | 3,88,000 | Balance at Bank | 16,000 |
| Purchases | 3,64,560 | Cash in hand | 25[illegible] |
| Salaries | 8,304 | Sundry Creditors | 20,000 |
| Discount received | 6,416 | Additions to Motor Van (as on 1st April, 1977) | 4,160 |
| Rates | 1,104 | Sundry Expenses | 2,912 |
| Addition to Buildings (as on 1st January, 1977) | 6,720 | Drawings | 11,200 |
| Repairs to Buildings | 944 | Income tax advance | 800 |
| Rent Received | 1,792 | | |
| Light and fans | 1,472 | | |

Prepare Trading and Profit and Loss Account and Balance Sheet as on 31st December, 1977, after taking into consideration the following :

(*a*) Stock as on 31st December, Rs. 54,000.

(*b*) Depreciate : Buildings @ 5% p.a. ; Furniture @ 6% p.a. ; and Motor Van @ 20% p.a.

(*c*) Income Tax payable Rs. 5,200 ; Accounting charges payable Rs. 400 ; Light and fans amount due Rs. 320 ; Telephone amount due Rs 80.

(*d*) Amount paid in advance for : Insurance Rs. 240 ; Rates Rs. 160 ; Motor expenses Rs. 480.

(*e*) Income tax account to be written off.

**Ans.** G P. Rs. 77,440 ; N. P. Rs. 61,056 ; Total of B. S. Rs. 1,22,256.

**Working Notes**

TRIAL BALANCE OF MR. A
*as on 31st December, 1977*

| | | Dr. | Cr. |
|---|---|---|---|
| | | Rs. | Rs. |
| A's Capital ... ... | | | 42,400 |
| Land ... ... | | 20,000 | |
| Buildings ... ... | 11,200 | | |
| Additions on 1-1-1977 ... ... | 6,720 | 17,920 | |
| Furniture ... ... | | 800 | |
| Motor Van ... ... | 2,400 | | |
| Additions on 1-4-1977 ... ... | 4,160 | 6,560 | |
| Balance at Bank ... ... | | 16,000 | |
| Cash in hand ... ... | | 256 | |
| Motor Expenses ... ... | | 6,400 | |
| Sundry Debtors ... ... | | 7,888 | |
| Sales ... ... | | | 3,88,000 |
| Purchases ... ... | | 3,64,560 | |
| Salaries ... ... | | 8,304 | |
| Discount Received ... ... | | | 6,416 |
| Rates ... ... | | 1,104 | |
| Repairs to Buildings ... ... | | 944 | |
| Rent Received ... ... | | | 1,792 |
| Light and Fans ... ... | | 1,472 | |
| Telephones ... ... | | 816 | |
| Insurance ... ... | | 672 | |
| Sundry Creditors ... ... | | | 20,000 |
| Sundry Expenses ... ... | | 2,912 | |
| Drawings ... ... | | 11,200 | |
| Income Tax advance ... ... | | 800 | |
| Suspense Account (*difference*) ... ... | | | 10,000 |
| | | 4,68,608 | 4,68,608 |

**29.** Navin and Kamal started business in partnership on 1st Jan., 1978. They invested Rs. 8,000 and Rs. 7,000 respectively in the business. According to the partnership deed (*i*) Profits and Losses were to be shared equally, (*ii*) Interest on capital was to be allowed at 5%, and (*iii*) Navin being the active partner, was to be entitled to a salary of Rs. 100 per month.

The closing stock on 31st December, 1978 was Rs. 4,000. The balances of account were as below :

| | Rs. | | Rs. |
|---|---|---|---|
| Cash ... | 190 | Accrued Commission (Dr.) ... | 40 |
| Bank ... | 690 | Property ... | 10,000 |
| Wages ... | 125 | Furniture ... | 700 |
| Freight ... | 10 | Machinery ... | 2,000 |
| Stock ... | 3,114 | Advertisement ... | 200 |
| Purchases ... | 15,840 | Trade Creditors ... | 12,500 |
| Sales Returns ... | 300 | Discount (Dr.) ... | 80 |
| Trade debtors ... | 18,960 | Salaries ... | 300 |
| Sales ... | 26,793 | Rent & Rates ... | 175 |
| Purchases Returns ... | 300 | Kamal's Drawings ... | 400 |
| B/R ... | 1,896 | Navin's Drawings ... | 400 |
| B/P ... | 2,015 | Stationery & Printing .. | 50 |
| Trade Expenses ... | 665 | Repairs ... | 120 |
| Depreciation ... | 900 | Interest (Cr.) ... | 107 |
| Commission (Cr.) ... | 440 | | |

After making adjustments for the following, prepare Trading and Profit and Loss Account for the year ending 31st December, 1978 and the Balance Sheet as on that date :

(*i*) Navin's Salary for 9 months due but not paid. (*ii*) Wages outstanding Rs. 200, (*iii*) Half the amount of interest relates to next year. (*iv*) Prepaid Rent Rs. 75.

**Ans.** G.P. Rs. 11,504 ; N.P. Rs. 7,932.50 ; B.S. Rs. 38,551.

**30.** On 31st December, 1979, the following Trial Balance was extracted from the books of a merchant :

| | Rs. | Rs. |
|---|---|---|
| Capital ... | | 28,000 |
| Drawings ... | 3,000 | |
| Sundry Debtors and Creditors ... | 20,100 | 10,401 |
| Loan on Mortgage ... | | 9,500 |
| Interest on Loan ... | 300 | |
| Cash in Hand ... | 2,050 | |
| Bad Debts Reserve ... | | 710 |
| Stock on 1st January, 1979 ... | 6,839 | |
| Motor Vehicles ... | 10,000 | |

| | | | |
|---|---|---|---|
| Cash at Bank | ... | 3,555 | |
| Land and Buildings. | ... | 12,000 | |
| Bad Debts | ... | 525 | |
| Purchases and Sales | ... | 66,458 | 1,10,243 |
| Purchases and Sales returns | ... | 7,821 | 1,346 |
| Carriage outwards | ... | 2,404 | |
| Carriage inwards | ... | 2,929 | |
| Salaries | ... | 9,097 | |
| Rates, Taxes and Insurance | ... | 2,891 | |
| Advertising | ... | 3,264 | |
| Discount | ... | | 540 |
| General Expenses | .. | 3,489 | |
| B/R and B/P | ... | 6,882 | 2,614 |
| Rent received | ... | | 250 |
| | | 1,63,604 | 1,63,604 |

Prepare Trading and Profit and Loss Account for the year ended 31st December, 1979 and Balance Sheet as on that date. After making adjustments for the following matters :

(1) Depreciate Land and Buildings at 2½% and Motor Vehicles at 20%.

(2) Interest on Loan at 6% per annum is unpaid for six months.

(3) Goods costing Rs. 500 were sent to customer on Sale or return for Rs. 600 on 30th December, 1979 and had been recorded in the books as actual sales.

(4) Salaries amounting to Rs. 750 and rates amounting to Rs. 350 are outstanding.

(5) Prepaid Insurance amount to Rs. 150.

(6) The Provision for Bad debts is to be maintained at 5 per cent of Sundry Debtors.

(7) Provide for Manager's commission at 10% on net profits after charging such commission.

(8) Stock in hand on 31st December, 1979, was valued at Rs. 6,250.

**Ans.** G.P. Rs. 33,692 ; N.P. Rs. 7,920 ; B/S Rs. 57,612.

**Note** – Manager's Commission is 1/11th of Rs. 8,712.
(Rs. 34,482 – Rs. 25,770 = Rs. 792.)

**31.** Nawab Ali and Abaid Ali are partners in a manufacturing business, sharing profits and losses equally. On 30th September, 19... the ledger balances of the firm were as follows :

| *Dr. Balances* | Rs. | | Rs. |
|---|---|---|---|
| Purchases | 60,000 | Cash at Bank | 1,500 |
| Motor Lorry | 3,250 | Cash in hand | 1,310 |
| Freigth on Purchases | 5,315 | Stock Opening | 23,220 |
| Repairs and Replacements | 905 | Power | 2,000 |
| Coal used | 5,706 | Stock of Coal | 2,000 |
| Taxes and Insurance | 1,038 | Nawab Ali's Drawings | 4,200 |
| Bad Debts | 442 | Abaid Ali's Drawings | 2,100 |
| General charges | 980 | *Cr. Balances* | |
| Advertising | 3,800 | Allowances from Creditors | 2,420 |
| Machinery and Plant | 25,000 | Sundry Creditors | 7,860 |
| Wages | 7,221 | Bad Debts Reserve | 385 |
| Land and Buildings | 13,840 | Sales | 74,444 |
| Salaries | 2,860 | Rent Received | 118 |
| Sundry Debtors | 7,940 | Nawab Ali's Loan | 10,000 |
| | | Nawab Ali's Capital | 48,000 |
| | | Abaid Ali's Capital | 31,400 |

After taking the following into account, prepare Trading and Profit and Loss Account for the year ended 30th September, 19.. and a Balance Sheet as on that date.

(*i*) Interest at 6% is to be allowed on Partners' capitals.

(*ii*) Depreciation at 10% is to be written off on Machinery and Plant and Motor Lorry.

(*iii*) One-half of Advertising is to be written off this year.

(*iv*) The Provision for Bad Debts is to be increased by Rs. 500.

(*v*) Transfer to Building Account for Rs. 1,000 from Purchases and Rs. 250 from wages representing cost of materials and labour spent on additions to Buildings made during the year.

(*vi*) Stock on 30th September 19 .. was agreed at Rs. 3,342.

(*vii*) Provide $7\frac{1}{2}$ per cent per annum interest on Nawab Ali's loan.

Ans. Gross Profit Rs. 5,574 ; Net Loss Rs. 8,467 ; Total of Balance Sheet Rs. 88,007.

**32.** From the following Trial Balance of A. Atmaram as on 31st December, 1979, you are required to prepare a Trading and Profit and Loss Account for the year ended 31st December, 1979 and a Balance Sheet as on that date, after making the necessary adjustments :

| *Debit Balances* | Rs. | | Rs. |
|---|---|---|---|
| A. Atmaram's Drawings Account | 6,000 | Postage and Telegrams | 800 |
| Machinery (Balance on 31st Jan., 1979) | 20,000 | Insurance charges | 700 |
| Plant and Machinery (additions on 1st July, 1979) | 5,000 | Salaries and Wages | 21,300 |
| Stock on 1-1-1979 | 15,000 | Cash in hand | 6,200 |
| Purchases | 82,000 | Cash at Bank | 20,500 |
| Returns Inwards | 2,000 | *Credit Balances* | |
| Sundry Debtors | 20,600 | A. Atmaram's Capital Account | 80,000 |
| Furniture and Fixtures | 5,000 | Sundry Creditors | 10,000 |
| Freight and Duty | 2,000 | Sales | 1,20,000 |
| Carriage Outwards | 500 | Returns Outwards | 1,000 |
| Rent, Rates and Taxes | 4,600 | Reserve for Doubtful Debts | 400 |
| Printing and Stationery | 800 | Discounts | 800 |
| Trade Expenses | 400 | Rent of Premises subject for year to 30th June, 1980 | 1,200 |

*Adjustments* :

(1) Stock on 31st December, 1979, was valued at Rs. 14,000.

(2) Write off Rs. 600 as Bad Debts.

(3) The Reserve for Doubtful Debts is to be maintained at 5 per cent on Sundry Debtors.

(4) Create a Reserve for discount on debtors and discount on creditors at 2%.

(5) Provision for depreciation on Furniture and Fixtures at 5% per annum and on Plant and Machinery at 20% per annum.

(6) Insurance Prepaid was Rs. 100.

(7) A Fire occured on 25th December, 1979 in the Godown and stock of the value of Rs. 5,000 was destroyed. It was fully insured and the Insurance company admitted the claim in full.

**Ans.** G.P. Rs. 39,000 ; N.P. Rs. 5,270 ; & B.S. Rs. 89,670.

**33.** The following balances, were taken from the books of Shri Ram Prasad on 31st December, 1979.

| | Rs. | | Rs. |
|---|---|---|---|
| Capital | 1,00,000 | Railway freight & other expenses on goods sold | 16,940 |
| Drawings | 17,600 | Carriage Inwards | 2,310 |
| Purchases | 80,000 | Office Expenses | 1,340 |
| Sales | 1,40,370 | Printing & Stationery | 660 |
| Purchases Returns | 2,820 | Postage & Telegrams | 820 |
| Stock (1-1-1979) | 11,460 | Sundry Debtors | 62,070 |
| Bad Debts | 1,400 | Sundry Creditors | 18,920 |
| Bad Debts Provision (1st January, 1979) | 3,240 | Cash at Bank | 12,400 |

| | | | |
|---|---|---|---|
| **Rates and Insurance** | 1,3C0 | Cash in hand | 2,210 |
| **Discount (Cr.)** | 190 | Office Furniture | 3,500 |
| **Bills Receivable** | 1,240 | Salary & Commission | 9,870 |
| **Sales Returns** | 4,240 | Addition to Buildings | 7,[illegible]00 |
| **Wages** | 6,280 | | |
| **Buildings** | 25,000 | | |
| **Rent (Cr.)** | 2,100 | | |

Prepare Trading and Profit and Loss Account and Balance Sheet as on 31st December, 1979, after keeping in view the following adjustments :

(*i*) Depreciate old Buildings at 2½% and new additions to Buildings at 2% and Office Furniture at 5%.

(*ii*) Write off further bad debts Rs. 570.

(*iii*) Increase the Bad Debts Provision to 6% of Debtors.

(*iv*) On 31st December, 1979, Rs. 570 are outstanding for salary.

(*v*) Rent Receivable Rs. 200.

(*vi*) Interest on Capital at 5%.

(*vii*) On 31st December, 1979, stock is valued at Rs. 14,290.

(*viii*) Unexpired Insurance Rs. 240.

Ans. G.P. Rs. 53,190 ; N.P. Rs. 16,060 ; B/S Total Rs. 1,22,950

**34.** *A* carried on business under the Name of *A* & Co. From the following information prepare the Trading & Profit and Loss Account for the year ended 31st December, 1979 and a Balance Sheet as on that date.

| | Rs. | | Rs. |
|---|---|---|---|
| *Dr. Balances* | | Cash | 530 |
| Drawings | 10,550 | Bank | 18,970 |
| Bills Receivable | 9,500 | Repairs and Renewals | 3,370 |
| Plant and Machinery | 28,8[illegible]0 | Interest and discounts | 5,870 |
| Sundry Debtors (including *B* for dishonoured bills Rs. 1,000) | 62,000 | Bad debts | 3,620 |
| | | Furniture and Fixtures | 8,970 |
| | | *Cr. Balances* | |
| Wages | 40,970 | Capital Account | 1,19,400 |
| Return Inwards | 2,780 | Loan Account at 6% (Interest paid up to October, 1979) | 20,000 |
| Purchases | 2,56,590 | | |
| Rent and Taxes | 5,620 | | |
| Stock | 89,680 | Sales | 3,56,530 |
| Salaries | 11,000 | Commission Received | 5,640 |
| Travelling Expenses | 1,880 | Sundry Creditors | 59,5[illegible]0 |
| Insurance (including premium of Rs. 300 p.a. paid up to 30th June, 1980 | 400 | | |

Stock in hand on 31st December, 1979 was Rs 1,28,960 ; write off half of *B*'s dishonoured Bills ; create a provision for doubtful debts at 5% ; allow 5% interest on capital ; Wages include Rs. 1,200 for erection of Machinery purchased last year. Depreciate plant and machinery by 10%. Furniture is revalued at the end of the year at Rs. 8,073. Provide for commission not received Rs. 600.

**Ans.** G. P. Rs. 96,670 ; N. P. Rs. 57,783 ; B/S Total Rs. 2,51,733.

**35.** From the following Ledger Balances extracted at the close of a trading year ended 31st December, 1979, prepare a Trading Account, Profit and Loss Account and Balance Sheet as at that date after giving effect to the undermentioned adjustments :

| | Rs. | | Rs. |
|---|---|---|---|
| Capital Account on 1-1-79 | 50,000 | Printing and Stationery Account | 250 |
| Stock Account on 1-1-79 | 8,000 | Rates and Taxes Account | 350 |
| | | Travelling Expenses A/c | 150 |
| Purchases Account | 20,000 | Sundry Trade Expenses Account | 200 |
| Sales Account | 80,000 | | |
| Returns Inwards A/c | 1,500 | Business Premises A/c | 55,000 |
| Returns Outwards A/c | 400 | Furniture and Fixtures Account | 2,500 |
| Carriage Inwards A/c | 1,200 | | |
| Carriage Outwards A/c | 2,500 | Bills Receivable Account | 3,500 |
| Wages Account | 3,300 | Bills Payable Account | 2,500 |
| Salaries A/c | 5,500 | Sundry Debtors Account | 20,000 |
| Rent A/c | 1,100 | Sundry Creditors A/c | 15,800 |
| Freight and Dock Charges | 2,400 | Packing Machinery A/c | 4,500 |
| Fire Insurance Permium Account | 900 | Smith's Loan A/c (Dr.) | 5,000 |
| | | Investments Account | 3,000 |
| Bad Debts A/c | 2,100 | Cash in hand | 250 |
| Discount Account (Dr.) | 500 | Cash at Bank | 3,500 |
| Apprenticeship Premium Account (Cr.) | 1,500 | Proprietor's withdrawals | 3,000 |

Adjustments to be made for the current period are :

1. Stock in hand at 31st December 1979, Rs. 7,000.
2. Wages to Labourers for the last month are outstanding Rs. 300.
3. Salaries to clerks for the month of December, 1979 are outstanding Rs. 500.
4. Rent of godowns for the last month is outstanding, Rs. 100.
5. Fire Insurance Premium include Rs 600 paid on 17th July 1979, to run for one year from 1st July 1979 to 30th June 1980.
6. Apprenticeship Premiums are for three years, paid in advance on 1st Jan. 1979.

7. A Stationery bill for Rs. 30 remains unpaid and unrecorded.
8. Depreciate : Business Premiums by 5%; Furniture and Fixtures by 10% and Packing Machinery by 10%.
9. Create a provision on debtors for doubtful debts at 5% and discount at 3%.
10. Create a reserve on creditors for discount at 2%.
11. Interest on Smith's Loan for one year has accrued at 7%.
12. Interest on Investments at 5% for the half year to 31st December 1979 has accrued.
13. Interest on Capital to be allowed at 5% for the year.
14. Interest on Drwings to be charged to him, as ascertaind for the year Rs. 80.

**Ans.** Gross Profit Rs. 50,700; Net Profit Rs. 30,779; Total of Balance Sheet Rs. 99,955.

**36.** From the following Trial Balance of Mr. *A* prepare Trading and Profit and Loss Account for the year ended 31st Dec., 1979 and a Balance Sheet as on that date.

TRIAL BALANCE

| Debit Balances | Rs. | Credit Balances | Rs. |
|---|---|---|---|
| Drawings | 5,275 | Capital | 59,700 |
| Bills Receivable | 4,750 | Loan at 8% (on 1-1-79) | 10,000 |
| Machinery | 14,500 | | |
| Debtors (including X for dishonoured Bills of Rs. 1,000) | 30,000 | Commission Recd. | 2,820 |
| | | Creditors | 29,815 |
| | | Sales | 1,78,215 |
| Wages | 20,485 | | |
| Returns Inward | 2,390 | | |
| Purchases | 1,28,295 | | |
| Rent | 2,810 | | |
| Stock (1-1-79) | 44,840 | | |
| Salaries | 5,500 | | |
| Travelling Expenses | 945 | | |
| Insurance | 200 | | |
| Cash | 9,750 | | |
| Repairs | 1,685 | | |
| Interest on Loan | 500 | | |
| Discount Allowed | 2,435 | | |
| Bad Debts | 1,810 | | |
| Furniture | 4,480 | | |
| | 2,80,550 | | 2,80,550 |

The following adjustments are to be made :

(*i*) Stock in the shop on 31st Dec., 1979 was Rs. 64,480.
(*ii*) Half the amount of *X*'s Bill is irrecoverable.
(*iii*) Create a provision of 5% on other debtors.
(*iv*) Wages include Rs. 600 for erection of new machinery.

(*v*) Depreciate Machinery by 5% and Furniture by 10%.

(*vi*) Commission include Rs. 300 being Commission received in advance.

*(S.S.C. Delhi, 1980)*

**Ans.** Gross Profit Rs. 47,285 ; Net Profit Rs. 30,472 & Total Balance Sheet Rs. 1,25,312.

**37.** From the following Trial Balance of Shri Shyam Lal, prepare a Trading and Profit and Loss Account for the year ended on 31st March, 1980 and a Balance Sheet as on that date :

TRIAL BALANCE

| *Debit Balances* | *Rs.* | *Credit Balances* | *Rs.* |
|---|---|---|---|
| Cash in hand | 2,050 | Sales | 1,10,243 |
| Stock (1-4-1979) | 6,839 | Capital | 28,000 |
| Sundry Debtors | 20,100 | Sundry Creditors | 10,401 |
| Drawings | 3,000 | Bills Payable | 12,614 |
| Land and Buildings | 12,000 | Purchases Returns | 1,346 |
| Interest on Loan | 300 | Rent Received | 750 |
| Purchases | 66,458 | Loan (on 1-10-79@10%) | 12,000 |
| Carriage Inwards | 2,929 | Bad Debts Reserve | 710 |
| Motor Car | 20,000 | | |
| Salaries | 9,097 | | |
| Bills Receivable | 3,000 | | |
| Carriage Outwards | 2,504 | | |
| Cash at Bank | 3,555 | | |
| Bad Debts | 525 | | |
| Taxes and Insurance | 2,891 | | |
| Furniture | 6,882 | | |
| Discount | 540 | | |
| Advertisement | 3,264 | | |
| Misc. Expenses | 3,489 | | |
| Rent | 6,641 | | |
| | 1,76,064 | | 1,76,064 |

The following adjustments are to be made :

(*a*) Stock in Hand on 31st March, 1980 was Rs. 6,250.

(*b*) Depreciate Land and Buildings @ 2½% and Motor Car @ 10%.

(*c*) Salaries and Taxes amounting to Rs. 750 and Rs. 350 respectively are outstanding.

(*d*) Make a provision of 5% on Sundry Debtors for doubtful debts.

*(S.S.C. Delhi 1980 Comptt.)*

**38.** On 1st January, 1978 the Provision for Bad Debts showed a credit balance of Rs. 3,600. During the year the bad debts

amounted to Rs. 2,800. The Debtors on 31st December, 1978 amounted to Rs. 96,000 and a provision of 5% for bad and doubtful debts was maintained.

The Bad Debts during the year 1979, amounted to Rs. 5,400. On 31st December, 1979, the Debtors amounted to Rs. 1,00,000 and a 5% Provision for Bad Debts was required to be kept.

In 1980, the Bad Debts amounted to Rs. 1,200 and the Debtors at the end of the year amounted to Rs. 40,000 on which a provision of 5% for Bad Debts and a provision of 5% for discount was to be maintained.

Show the Provision for Bad Debts Account and also how these items will appear in the Profit and Loss Account and Balance Sheet of each of these three years.

**39.** On 1st January, 1979 the provision for discount on creditors were Rs. 1,200. The discount earned during the year amounted to Rs. 1,040. The creditors on 31st December, 1979 were Rs. 50,000 and a new provision of 2½% is required.

Show the Journal, Ledger, Profit and Loss Account and Balance Sheet entries relating to discount.

**40.** Sundry Debtors as on 31st December, 1978 were Rs. 40,000 and you are required to make a 5% Reserve for Doubtful Debts and also a 5% Reserve for Discount as on that day. The actual bad debts during the year 1979 amounted to Rs. 1,600 and the Discount allowed was Rs. 1,700. The Debtors at the close of the year 1979 amounted to Rs. 50,000 and Reserve for Doubtful Debts and Reserve for Discount are required to be maintained at 5%.

Give Journal Entries and accounts relating to both the years.

15

# Methods of Presenting Final Accounts

So far we have studied the preparation of the final accounts, *viz.*, Trading A/c, profit & Loss A/c and the Balance Sheet. The preparation of these final accounts or financial statements are very essential not only for the owners of the business but also for the world outside. The people who own the business, the creditors, the banks, the workers and the executive staff, the income-tax authorities and all those who have any type of interest in the business have to know about the financial position of the firm. The final accounts or the financial statements show this position. As such these statements should be quite comprehensive as to give the details required by various parties interested in knowing about them. These financial statements include—(*i*) Trading account, (*ii*) Profit and Loss account, and (*iii*) Balance Sheet. The preparation of these accounts are not legally necessary for single ownership and partnership, but in case of joint stock company it is legal obligation to prepare them according to Sections 209—211 of the Indian Companies Act.

**Methods of Presenting Financial Statements**

The following are the most prominent methods of presenting these statements :

1. **Traditional Method or T. Form Method.** This method has already been discussed in earlier chapters dealing with final accounts. Under this system these statements are prepared in the T form or the account form. In case of Trading and Profit and Loss account, the left hand side shows all the debit balances and the right hand side, all the credit balances. The Balance Sheet is also presented in the same form, *viz.*, in the form of an account. Even under this same method there are two systems prevalent, the British system and the American system. Under the British system the liabilities are shown on the left hand side and the right hand side shows all the Assets and properties. Under the American system it is the reverse. That is all the assets are shown on the left hand side and all the liabilities including capital are shown on the right hand side. The argument put forward is that since all assets are debit balances, they should be shown on left hand side which is the debit side. And all liabilities are credit balances, so they should be shown on the right hand side or the credit side. In India the British system is followed.

2. **Vertical or Columnar Method.** Under this system the assets and liabilities are shown in vertical order instead of in two sides of the T form. Even under the same system there are two

methods. Under the first, the total of all the assets is matched with the total of all the liabilities. Under the second, the fixed assets and the current assets are shown separately and then totalled. From this total is deducted the capital, loans and the creditors, the balance then indicates the cash in hand and the net gains of the concern. Some firms use a modified method wherein the working capital is added to the fixed assets which show the total investment in the business. If the borrowed capital is deducted from this the balance will show the cash balance including profits.

### Vertical Form of Balance Sheet

BALANCE SHEET OF............

*As On............*

| | | |
|---|---|---|
| **Current Assets** | | |
| Cash | — | |
| Cash at Bank | — | |
| Bills Receivable | — | |
| Trade Debtors | — | |
| Inventories | — | |
| Accrued Income | — | |
| Marketable Securities | — | |
| Total Current Assets | — | |
| Less : Current Liabilities | | |
| Trade Creditors | — | |
| Bills Payable | — | |
| Bank Overdraft | — | |
| Accrued Expenses | — | |
| Total Current Liabilities | — | |
| Working Capital | | |
| **Fixed Assets** | | |
| Furniture & Fittings | — | |
| Land & Buildings | — | |
| Machinery | — | |
| Total Fixed Assets | | |
| **Less : Long Term Liabilities** | | |
| Loans | — | |
| Fixed Deposits | — | |
| **Net Assets** | | |
| **Derived From** | | |
| Capital | — | |
| Reserves | — | |
| Shareholders' Fand | — | |

**Income Statement**

| | | |
|---|---|---|
| Gross Sales | — | |
| —Sales Returns & Allowances | — | |
| Net Sales | — | |
| Cost of Sales | — | |
| Gross Profit on Sales | — | |
| —Operating Expenses | | |
| (*a*) Selling Expenses | | |
| (*b*) Administrative Exp. | | |
| (*c*) General Expenses | | |
| Income From operation | — | |
| + Other Income | — | |
| Total Income | — | |
| — Other Expenses | — | |
| Net Income for the Year | — | |

3. **Summary Type Method** Under this method all the amounts are categorised under certain heads and their totals shown. As regards Profit and Loss account the expenses are classified as (*i*) cost of raw material, (*ii*) manufacturing expenses, (*iii*) administrative expenses, and (*iv*) sales and distribution expenses. Likewise in case of balance sheet the assets are divided into (*i*) Fixed assets and (*ii*) current assets and liabilities into (*a*) current liabilities and (*b*) fixed liabilities and capital. The presentation of final account can be done in any of the two ways described earlier.

**Specimen of Income Statement in Vertical Form**

SUMMARY METHOD

| | | 1977 Rs. |
|---|---|---|
| Gross Sales | | 15,300 |
| (—) Sales Returns and Allowances | | 300 |
| Net Sales | | 15,000 |
| Cost of Sales | | 9,100 |
| Gross Profit on Sales | | 5,900 |
| Operating Expenses ; Sales Expenses | | 3,000 |
| | Administrative Expenses | 1,500 |
| | Total Expenses | 4,500 |
| Income from Operations | | 1,400 |
| Other Income | | 150 |
| Total Income | | 1,550 |
| Other expenses | | 200 |
| Net Income For the Year | | 1,350 |

## Specimen of Balance Sheet in Summary

BALANCE SHEET OF......

*As on 31st December, 1979*

| ASSETS | Rs. | LIABILITIES | Rs. |
|---|---|---|---|
| Fixed Assets : | | Paid-up capital | 97,500 |
| Land and Buildings | 54,000 | Reserve and Surplus | 37,500 |
| Machinery | 1,86,000 | 5% Debentures | 90,000 |
| Current Assets : | | | |
| Stock | 48,000 | Current Liabilities : | |
| Sundry Debtors | 21,000 | Trade Creditors | 30,000 |
| Cash | 21,000 | Creditors for Expenses | 6,000 |
| | | Provision for D. Debts | 900 |
| | | Provision for Depreciation | 68,100 |
| | 3,30,000 | | 3,30,000 |

**Requirements of Financial Statements in the case of Limited Companies**

Whenever the financial statements of limited companies are to be prepared, the following points have to be kept in mind :

(*i*) **Facility for making a comparative study.** For this purpose the figures of the last year should also be shown together with those of the current year.

(*ii*) **It should depict a true and fair picture of the financial position.** The statement should represent truely the real position of the business. Nothing should be kept out. It should fulfil the requirements according to the schedule No. 6 part I and II of the Act.

(*iii*) **Convention of Materiality.** Efforts should be made to present the figures to the nearest possible correct figures. This question arises because in modern times the figures do not show paise or quite often the figures are rounded up in thousand or ten thousand.

(*iv*) **Disclosing of Accounting Policies.** Mention must be made of the accounting policies. If a change has been brought in the system of calculating Depreciation or Reserves, a mention of the same has to be made in the financial statements.

(*v*) **Statement should be quite intelligible.** They should be presented in such a manner so that it can be easily understood by even ordinary persons.

(*vi*) **Statements should be Accrued and Reliable.** No attempt should be made to manipulate or hide facts.

(*vii*) **Salaries of Top managerial personnel should be shown separately from profit and loss account.** The sa'aries of the top officials drawing more than Rs. 36,000 per annum should be shown separately. Complete information in respect of their names, qualifications, experience emoluments, perquisites, length of service etc. are to be provided.

**Recent Trends in Presenting the Statements of Accounts**

Most of the country's capital is contributed by the shareholders of the various joint stock companies. It is essential for the officials of these companies to present the financial statements of their respective companies to their shareholders in an clearcut and intelligible manner, so that they are well informed about the activities of these companies. American companies are supposed to be far ahead in this matter. Big industrial houses in India are also following them. The new trends which are in vogue these days may be briefly described as under :—

1. **Format and general get up.** The annual report, which includes the financial statements as also other relevant information is now usually presented in a form of a booklet, printed on excellent quality of paper with beautiful printing, often in many colours. This contains even photographs of the various activities, plants, and othe important incidents. The title cover and the back cover receive special attention. All these things not only provide advertisement of the company but also instals confidence in the company and itsr management.

2. **Size of the financial statements.** According to the new trend the size of the Profit and Loss account and Balance Sheet is reduced to its minimum. However, all relevant informations are provided in the form of annexures, which are considered to be a part of these financial statements

3. **Highlights.** The achievements of the company in various areas of its activities are highlighted under various headings like, Digest of results, Financial Highlights, the year under review, Facts at a glance etc. The purpose is to acquaint the employees as also the shareholders with the achievements of the company during the year.

4. **Vertical Presentation of Final Accounts.** The traditional method of presenting financial statements in account form of T shape is now being discarded and Vertical form of presentations of financial statements is becoming popular. This method is considered best of all, because all the relevant information are put together under this method. Moreover, uuder this method the balances of the last year together with analysis ratios are also provided which enables the reader to understand it clearly. The balance sheet contain, total capital, working capital, liquid assets, shareholders capital etc. These information were usually not made available under the traditional methods.

5. **Presentation in round figures.** The use of paise is avoided altogether. Balances are rounded off in hundred, or thousand and sometimes ever in ten thousand.

6. **Additional schedules.** All these relevant and supplementary information are also provided together with the Profit and Loss A/c and other statements in the form of additional schedules. These may include list of creditors and debtors. Funds Flow Statement and Cash Flow Statement etc.

7. **Use of charts, diagrams and pictorial presentation.** The use of visual aids in annual reports have become very popular these days. The charts, diagrams and pictorial presentation have a lasting effect on the readers minds. Quite often when profits have been reduced on account of heavier taxes or higher prices of raw material or the like issues, they are very nicely shown through these methods.

**Classification of Assets and Liabilities**

All the assets and liabilities are usually classified into two cate gories *current* and *fixed.*

**Current Assets.** According to Haward and Upton the current assets, "are usually defined as those assets which are convertible into cash through the normal course of business within a short time ordinarily one year". According to AICPAC Committee on Accounting Procedures current assets may be defined as, "Cash and other assets or resources commonly as those which are reasonably expected to be realised in cash or sold or consumed during the normal operating cycle of the business." Under this category comes cash, receivable bills of exchange, debtors, prepaid expenses goods.

**Current liabilities.** Current liabilities may be defined as short term liabilities, which become due within a year and usually paid from current assets. These include Bills payable, Bank overdraft, creditors, unpaid expenses, unearned income etc.

Sometimes even long term liabilities are counted as current liabilities provided its payment is to be made from current assets. If the current assets are almost double of current liabilities, the financial pssition of the business concern is supposed to be good. The difference between current assets and current liabilities is called *working capital.* It has a great importance in the day to day running of the business. In case it is not sufficient, the day to day working will become difficult. Those transactions which affect fixed liability and fixed assets do not affect the working capital. It can be expressed through the following equation :

$$\boxed{\text{Working Capital} = \text{Current Assets} - \text{Current Liabilities}}$$

**Fixed Assets.** According to Finney and Miller, "Fixed Assets are assets of relatively permanent nature used in the operation of business and not intended for sale" They bear the following characteristics : –

(*i*) They are of permanent nature ;
(*ii*) They are bought for the use of business ; and
(*iii*) They are not bought for resale and earn profit.

These fixed assets are usually of two kinds :

(*a*) **Tangible Assets.** These have definite physical form and can be seen and touched, *e.g.*, land, buildings machines and furniture etc.

(*b*) **Intangible Assets.** These assets have no physical existence nor have they any intrinsic value. They are usually of a permanent nature, *e.g.*, Goodwill, Trade mark, Copyright, etc.

The nature depends on its use rather than the assets itself. Finney and Miller have said well, "A factory building no longer used in the operation is not a fixed asset because it is not used in the operation of the business."

**Fixed Liabilities.** Fixed liabilities are those long term liabilities and may be defined as the claims which are not due for a comparatively long period. Capital, Reserves, Long term loans from Government and financial corporations are the examples.

**Standard Questions**

1. What are the various forms of presenting Final Accounts ? Which of them do you consider to be the best and why ?
2. Classify assets and liabilities with suitable examples.
3. What are the main requirements of Financial Statement in the case of a Limited Company ?
4. What are the recent trends of Financial Statements ?
5. What is working Capital ? How is it calculated ?
6. Write short note :
   Working Capital in Accounting
   (*Delhi S.S.C. Exam. 1978*)
7. Bring out the distinction between Fixed and Current Assets.
8. Define Working Capital. How would you calculate working capital from a given Balance Sheet.
   (*S S.C. Delhi, 1980*)

# 16
# Accounting Theory

**Financial Statements**

Financial Statements mean such original documents prepared by the accountant as give information about the financial situation of the business. These include two statements prepared at the end of the year (*i*) Profit and Loss Account or Income Statement (*ii*) Balance Sheet or Position Statement. These two statements are collectively called financial statements. These days financial statements also include (*i*) Profit and Loss Appropriation account : and (*ii*) Funds-flow statement. These statements are completed with the help of some supplementary lists *e.g.*, debtors' list, creditors list, list of fixed assets and list of investments.

**Importance of fianancial Statements.** There is a great importance of financial statements, because the statements are the best means of communicating the results of management to the owners of the business, employees, customers and the general public thus they are good source of public relation. Beside economists, labour leaders, journalists and politicians are also interested in them.

**Essential of Ideal Statements**

(1) **Brief Presentation.** Financial statements should be presented in brief so that it might be easy to read and understand them.

(2) **Classification of necessary information.** All the necessary information should be clearly given in the financial statements so that they may give a true and fair view of the position.

(3) **Use of necessary lists.** To give supplementary information given in the Profit and Loss A/c and Balance Sheet necessary lists of sundry debtors, sundry creditors and other lists should be used.

(4) **To make available the necessary material available to the various parties.** Necessary material for shareholders, creditors prospective creditors, managers, etc., should be available in the, financial statements.

(5) **Easy expression of figures.** Paise should not be used in financial statements and as far as possible other figures should also be shown in multiples of 100 or 1,000.

(6) **Clear knowledge of financial statements.** Financial statements should clearly show the financial position of the business.

(7) **Facility of comparative study.** Financial statements should provide facility for comparative study.

**Limitations of Financial Statements.** Although financial statements provide us with many useful information yet they suffer from many limitations.

(1) **Financial statements are not very definite.** Although some figures in financial statements are based in actual facts, *e.g*, purchases, sales etc. Yet profits are influenced by many presumptions, *e.g.*, life time of a machine, bad debts and method of valuation of stock, etc The accountant makes many assumptions about the business and when these assumptions do not prove true there is loss instead of profit.

(2) **No knowledge of the present value of the business.** Financial statements fail to give the present value of the business because there is a great difference in the market value and the book value. It is not necessary that the book value of assets may be same as market value.

(3) **No knowledge of all the Information.** Financial statements do no give complete information regarding the business. Only those information are available that can be expressed in money. Those that cannot be expressed in money are left, howsoever, important they may be.

(4) **Figures of Financial Statement are not very true.** So far there is no such device which can prove the accuracy of the figures given in the financial statements. Thus there is no proper method of finding out the truthfulness of the figures.

(5) **Decoration of Accounts.** Now-a-days too much attention is given on the decoration of account. Thus accounts are prepared in such a way that legal requirements are fulfilled and the financial position of the business seems to be sound but actually these accounts are far from the truth.

(6) **Fixed time limit.** Financial statements are true on the date on which they are prepared. Beofre and after that date they are not true

**Postulates of Accounting**

While following conventions of accounting the accountant assumes certain postulates and principles of accountancy are based on these postulates. These postulates are based on many economic, political and business ideas and conventions. It is possible that in the beginning the accountants have accepted some postulates due to experience or due to some reason and later on thev were accepted as principles when their utility was proved. Thus we can say that the postulates of accounting are based on provings. Following are the postulates of accouting :

(1) **Monetary Postulates.** The accountant presumes that the financial position of the business should be expressed through a

common measuring unit of money and fluctuations in the value of money should be totally ignored because there are very few fluctuations in the value of money. This is the reason why it is not thought necessary to give attention to the changes in the value of money while preparing the financial statements.

Although the results of the financial statements might not prove true if there is too much change in the value of money ; yet most of the accountants believe in this concept.

(2) **Permanance Postulates.** The accountant proceeds with the belief that the business would continue for an indefinite period, *i.e.* it would continue till the businessman is not declared insolvent. This is the reason why assets are shown at their cost price in the Balance Sheet and not on their present saleable price.

(3) **Realisation Postulates.** In business income from sales would be taken only when it is taken to have been realised.

(4) **Separate Business Entity.** The accountant presumes that the business is separate from its owner. These two have a separate existence. Example of joint stock company clarifies this situation.

**Accounting Principles**

Accounting principles mean the plan which explains the method adopted to prepare financial statements. The accountant has to follow these principles while preparing accounts. These are not principles of law and they are not available in any law book. They are concerned with the accounts and financial statements. These principles are such as are not framed by any individual or by Government. They are based on certain postulates and conventions. "Accounting Principles are broad rules adopted by the accounting profession as guides for use in recording and reporting the affairs and activities of a business to its stockholders, investors, creditors and other outsiders."

**Evolution of Accounting Principles.** These principles have been evolved over a long period by professional accountants in trying to find solutions to many problems arising out of various needs of business. The evolution can be depicted like.

Problem → $\boxed{\text{Thinking}}$ → $\boxed{\text{Theory}}$ → $\boxed{\text{Principle}}$

Following points are worth mentioning in this connection :

(1) **These principles are man-made.** Principles of accounting are man-made. So they cannot be universal like principles of physical science. These principles are useful because they are based on logic, experience and practical.

(2) **Lack of universal acceptance regarding these principles.** All the accountants never agree to a principle unanimously. So it cannot be said that a particular principle will be applicable everywhere in the same way.

(3) **Lack of any list of principles**. There is no such list of principles as may be based on all the principles of accounting.

(4) **There is difference in the use of principles.** Different principles are used at different time and place for the same work. For example, different principles are used for calculating unsold stock on different occasions.

(5) **Rapidly Developing**. These principles are rapidly developing.

**Conventions and Concepts of Accounting**

Owner of the business, creditors, investors and other related parties are interested in knowing the financial position of the business. Financial statements are prepared to achieve this object. Accounting is the language of business. It has got its own conventions and concepts, rules and sub-rules which must be followed. The present form of accountancy which we see to day has emerged out after hunderd of years of experience This proverb that necessity is the mother of invention has proved true in this case. In accountancy broadly those principles are accepted that are useful, information received on the basis of which are free from personal prejudice and these principles can be used without any complexity or additional cost.

Scholars differ on the meaning and importance of conventions and concepts on accounting. Conventions of accounting guide in preparing the various statements relating to accounting.

**Conventions of Accounting**—Following are the main conventions of accounting ;

(1) **Convention of full disclosure**—This convention implies that accounts must be honestly prepared and all significant information must be disclosed therein. This notion is more important in joint stock companies because of divorce between capital and management. Standard forms of Balance Sheet and schedule of contents of the Profit and Loss Account are prescribed by law. These forms are designed to make disclosure of all relevant facts compulsorily.

(2) **Convention of Consistency**—In order to enable the management to draw important conclusions regarding the working of a company over a numbor of years, it is but essential that accounting practices and methods remain unchanged from one accounting period to another. For example, same method of providing depreciation should be followed consistently. Similarly same method should be used for valuation of unsold stock. Otherwise the results would be misleading.

(3) **Convention of Conservation**—This is the policy o. 'Playing Safe'. It takes into consideration all prospective losses but leaves all prospective profits. Valuation of stock is done at market price or cost price whichever is less. Making the provision for doubtful debts and discount on debtors in anticipation of actual bad

debts and discount is an example of this convention. The main aim of published accounts is to convey and to conceal the information.

(4) **Convention of Materiality or Reasonable Degree of Accuracy**—According to this convention information received through accounts should be really true and materialistic. It depends upon the nature of business as to what is material and true.

**Accounting Concepts**

(1) **The Business Entity Concepts**—This is a very important concept that for accounting purposes the business is treated as a complete unit or entity apart from its owners, creditors and others. In other words, the proprietor of an enterprise is always considered to be separate and distinct from the business which he controls All transactions of the business are recorded in the books of the business from the point of view of the business as an entity and even proprietor will be treated as creditor to the extent of his capital Upon the investment of money in the business by the proprietor it will be deemed that the proprietor has given money and the business has received money and this transaction will be recorded in the books of the firm by debiting Cash A/c aad crediting Capital A/c. For legal and most practical purposes, we regard the sole trader and his business as one and the same thing. But for accounting purposes we regard them a different entities.

(2) **Matching revenue and expenses**—With the intention of earning profit, the businessman is always busy in his business. He always tries to find means to maximise his profit. For this purpose it is necessary to match revenue and expenses of a particular period. Profit is the result of business activities For this knowledge of profit during a particular period is not sufficient but we have also to see the expenses incurred during that period.

(3) **Going Concern Concept**—According to this concept the business unless and until has entered into a state of liquidation, is to be viewed as having an indefinite life. Long-term business is better than a temporary one. The reasons for this are

(*i*) An individual is provided to invest money in the business.

(*ii*) Accountant of the business does not make unnecessary assumption regarding the forced sale values of goods and assets.

(*iii*) Assets are depreciated on the basis of exected life rather than on the basis of market value.

Going concern concept has been defined as follows ;

"A business enterprise in operation, with the prospect of continuing operation in the future, its assets, liabilities, revenues, operating costs, personnel, policies and prospects ; a concept basis to accounting of importance in the valuation of intangible assets."

(4) **Realisation Concept**—It is a firm rule in accounting that revenue is considered to have been earned when it is realised. It can

be earned only by transfer of goods or services to a third party either for cash or for a legal commitment to pay From the point of view of services revenue is considered of that period in which these services are rendered. Regarding physical goods revenue is not considered to have been earned when it is produced nor when order is placed for the same nor when the contract for sale is signed but it is considered to have been earned when the goods are loaded on the ship or delivered to the buyer.

When does the ownership of goods transfer ? People may differ on this issue But one fact is accepted by all that the date which the accountant puts on the invoice and the date on which goods are actually sent. out of these two whichever is later is considered to be the date of transfer of ownership of goods.

The amount of profit earned by a business can only be known after the sale has been done. But this does not apply in case of gold mines. The price of gold is almost fixed. Therefore, the gold taken out of the mines during a year is supposed to be the income of that year. When there is doubt in realisation of the amount of sale, it cannot be treated as income from sale. This difficulty is found in case of goods sold on instalment basis. Here income is to be earned when all the instalments are received.

An example will clarify this point. Suppose some goods were purchased in January and sold in February. There is five years guarantee for these goods. Suppose its cash was realised in March. So the income will be treated to have been earned in March when it has been realised The probable repairing charges in future will be deducted out of it.

(5) **Money Measurement Concept**—Only such transactions or events as can be interpreted in terms of money are recorded in the books of account The concept delimits the scope of book-keeping. In accounts health position of the president or the secretary is not mentioned nor the fact that two officers are not on talking terms with one another, nor the fact that a competitor with better product has entered into the market, nor the fact that the employees are on strike. Money is the universally accepted measure of value. That is why every transaction is expressed in money.

(6) **The Accrual Cnocept**—According to this concept the profit is considered to be earned only when there is an increase in the owner's equity, *i.e.*, capital. Selling goods on profit is an example of this type. How has the profit accrued can be understood if we study its two aspects For example, a businessman sells goods for Rs 500. The cost of its production is Rs. 300. One transaction increases the assets while the other decreases it. When as a result of business transactions, there is increase in assets, there is a profit and there is decrease in assets where there are expenses

If receipts are more, there is profit, if expenses are more there is loss. In the above transaction the receipts are Rs. 500 and expenses are Rs. 300. So there is profit of Rs. 200.

Profit means increase in the owner's equity and not increase ni cash. It can be said with certainty that where there is profit, the financial position of the business will be good. But it cannot be said that increase in cash will result in good financial position of the business. There can be other reasons for increase in cash, *e g*, money borrowed from someone.

For example a businessman borrows Rs. 20,000 from the bank. It increases his cash no doubt, but it also increases his liability on the other hand. So owner's equity is not affected.

All increase in cash cannot be taken as income. Goods sold for Rs 500 is not the profit of business. If the cost of producing the goods is Rs. 300, the profit will be Rs. 200 only.

Presence of big cash balance does not indicate that the financial condition is necessarily good. However, if the profits are more, it surely points towards the sound condition of the business. Cash can increase because of so many reasons, *e g*, receipts from debtors or less payments to the creditors. But these things will not affect the owner's equity.

(7) **Accounting Period Concept**—The profit of any concern is calculated by comparing the capital at the time of beginning of business and at the end of the business. However, it is almost impossible to wait till a very long period. Nor it will be allowed by income-tax rules. It is because of these reasons that some definite period is decided upon as 'accounting period', which is usually a year or twelve months. This is arbitrarily fixed. This is called accounting period concept. This helps in improving relations between partners.

(8) **Verifiable, Objective Evidence Concept**—These should be a sufficient evidence for all business transactions supported by vouchers or receipts. These vouchers are evidence in business and the accounts can be audited on the basis of these.

(9) **Dual Aspect concept**—This concept is based on the principle that every transaction has two-fold aspect. If in a business there is increase in an asset. then some other asset or cash should be given in its place or there should be promise of payment in future or there should be gain to the businessman or he should have invested some additional money in the business to acquire that asset. This concept is true in the opposite direction also. Thus in a business following equation should be true :

$$\text{Assets} = \text{Liabilities} + \text{Capital}$$

OR

$$\text{Capital} = \text{Assets} - \text{Liabilities}$$

**Fundamental Accounting Assumptions**

International Accounting Standards Committee has recently started work for standardising norms for accounting at international level. According to this committee a distinction must be made between *accounting concept* and *Accounting assumptions*. The committee suggests that all final statements should be prepared with the follow-

ing three assumptions. In other words unless said to its contrary it should be thought that these three assumptions hold good. These assumptions are :

1. **Consistency**—It means that there should be consistency in respect of accounting policies of the business throughout, *i.e.*, year after year. The procedure for determination of value of stock, the mode of calculating depreciation should continue to be the same.

2. **Accrual basis**—It means that all incomes and expenses should be treated only when they have actually accrued. The receipt or payment of cost should not determine that a revenue has been received or expense incurred Revenue and expenses should be accounted for only when they have actually become due.

3. **Going concern concept**—This concept means that while preparing final accounts, the presumption is that the business will continue for indefinite period, and that it is neither going to be closed nor sold off.

It is expected that these fundamental assumptions are being followed. If not a reference to the same has to be made in the report.

According to this committee there is a lot of difference between accounting concepts and accounting assumptions While preparing the accounts, it is essential for every business to follow the accounting concepts. However, each business house is free to choose any one particular policy regarding assumptions, according to nature of the business, as for example it is for the businessman to decide which method of depreciation to follow or what method should be employed for calculating cost of stock, etc. In spite of this there are some basic points which should guide a businessman while he chooses a particular procedure :

(*i*) **Prudence**. The policies should be such which would guard against risks and losses, but should not necessarily create secret reserves.

(*ii*) **The contents should have more importance than the format.** In accounting the format does not matter so much as the correctness and accuracy of the facts and statements.

(*iii*) All important and relevant facts must be reported, that on its basis definite conclusions can be arrived at.

**Standard Questions**

1. Explain the conventions of Accounting in short.
2. Explain the concepts of Accounting in detail.
3. 'Business is a separate entity, Explain.
4. What are the advantages to the accountant in accepting the 'Going Concern Concept' ?

5. What is the importance of Matching Concept ?

6. Explain any three of the following (in 50 words each) :

   (*a*) Dual Aspect Concept (*b*) Money Measurement Concept
   (*c*) Going Concern Concept (*d*) Matching Cost Concept

7. Write notes on :

   (*i*) What is meant by Financial Statements ?

   (*ii*) Matching Cost with Revenue.

   (*iii*) Money measurement Concept.

   (*Delhi Senior School Certificate Exam. 1978*)

8. What do you understand by 'Accounting Concepts and Conventions.' Explain any two of the following :

   (*a*) Consistency Convention;

   (*b*) Convention of Disclosure;

   (*c*) Dual Aspect Concept;

   (*d*) Going Concern Concept.

   (*All India Senior School Certificate Exam, 1978*)

9. Explain clearly the meaning and significance of the Going Concern Concept.

   (*All India H.S. 1976 & Delhi H.S., 76*)

10. Write a short note on Realisation Concept.

    (*D.H.S. Comptt., 1976, All India H.S , 76*)

11. Explain the meaning and significance of money measurement Concept. (*D.H.S. Comptt. 1975 & 77, All India H.S., 1975*)

12. Explain the meaning and significance of Accounting Concept.

    (*All India H.S., 1977*)

13. Distinguish between
    Business Entity and Going Concern Concept.

    [*Delhi Senior School Certificate Exam. 1978* (*c*)]

14. (*a*) What do you understand by the 'Materiality Convention' and the 'Convention of Conservation' and 'Prudence' ? Explain in brief.

    (*b*) 'Revenue earned and cost of earning that revenue should be properly identified for a peirod.' Explain this statement.

    (*Delhi S.S.C Exam., 1979 1980 & 1980 Comptt.*)

15. What do you understand by matching cost with revenue.

# 17

# Depreciation

Generally, when an asset is used its value decreases because of its constant use. Depreciation is the gradual and permanent decrease in the value of an asset from any cause.

According to *R. G. Williams*, "Depreciation may be defined as a gradual deterioration in value due to use."

According to *J. R. Batliboi*, "Depreciation means permanent decline in value of the assets due to wear and tear or from any other cause."

According to *R. N. Carter*, "Depreciation is the gradual decrease in the value of an asset from any cause."

According to *Pickles*, "Depreciation may be defined as the permanent and continuous diminution in the quality, quantity or the value of an asset."

According to *Spicer and Peglar*, "Depreciation may be defined as the measure of the exhaustion of the effective life of an assets from any cause during a given period."

**Causes of Depreciation**

Following are the reasons of depreciation in the value of assets :

(1) **Constant Use.** The value of an asset decreases because of its constant use. This is more applicable on machinery.

(2) **With the passage of time.** The value of asset also deccreases with the passage of time.

(3) **Finishing of the product.** The value of an asset declines due to finishing of its product, *e g.*, coal in coal-mines.

(4) **Accident.** The value of asset decreases due to accidents also.

(5) **A fall in price.** When there is a permanent fall in the price of an asset, its value depreciates, *e.g.*, investments, etc.

**Need for Providing Depreciation**

Depreciation is provided due to the following reasons ;

(*i*) **To find out net profit.** The businessman has to incur certain expenses in earning revenue. Fall in the value of assets used in this process is a part of the cost and should be shown in the

Profit and Loss A/c of the year. Otherwise it will not show the correct net profit.

(*ii*) **To find out correct financial position.** If the depreciation is not provided the assets shown in the Balance Sheet will not be shown Their correct value and the picture will not be true.

(*iii*) **For the replacement of Assets** The businessman takes advantage from the use of fixed assets and time comes when these assets become totally useless and need to be replaced. By maintaining a depreciation fund or by taking a insurance policy out of the depreciation provided, he can easily replace such assets.

(*iv*) **To spread over a number of years the burden of writing off an asset.** A businessman takes advantage of an asset for many years which he purchases for his business. If its burden is put on the Profit and Loss A/c of one year it will not be reasonable. Therefore, it is proper that it is spread over a number of years.

(*v*) **To give correct information to the creditors.** Creditors give loan to the businessman and the assets of the business stand as surety for such a loan Thus if these assets are not shown in the Balance Sheet at their proper value, the creditors may be misguided.

(*vi*) **Proper Account of the Cost of Production.** Depreciation is a cost of production. If it is not properly recorded in the Profit and Loss A/c the cost of production will not be true.

(*vii*) **Writing off of capital as profit.** If proper depreciation is not accounted for, then profits will be higher and when distributed will affect the capital. After sometime the capital will be thus substantially reduced and would have been distributed in the form of profits.

**Important Points Regarding Depreciation in Value**

(1) Depreciation in the value gives us the information that the value of a particular asset has fallen.

(2) Depreciation in value is not concerned with cost price or sale price but with book value.

(3) This fall is permanent.

(4) This fall is constant.

(5) It is concerned with fixed assets only.

**Basic Factors of Providing Depreciation**

For calculating the amount of depreciation following points should be kept in mind :

(1) Cost price of the asset.

(2) Its estimated life.

(3) Its estimated residual value or scrap value at the end of its life.

**Depreciation and Obsolescence**

If a better machine comes in the market, the old machines may have to be scrapped even though they are capable of being run physically. Thus the value of old machine comes down But this fall is not permanent. So it is not called depreciation but obsolescence.

## Methods of Providing Depreciation

Following are the main methods of providing depreciation :

(1) Fixed Instalment Method.

(2) Diminishing Balance Method.

(3) Annuity Method.

(4) Depreciation Fund Method.

(5) Insurance Policy Method.

(6) Revaluation Method.

**I. Fixed Instalment Method.** Under this method, the amount of depreciation is uniform from year to year. This fixed amount of depreciation is charged to Profit and Loss A/c every year. So this is also called equal instalment method or straight line method. The annual amount of depreciation can be easily calculated. Out of the cost of the asset its scrap value is deducted and it is divided by the number of years of its estimated life. This is the amount of depreciation.

Thus

$$\text{Depreciation} = \frac{\text{Cost Price—Scrap value}}{\text{Life of Assets}}$$

Thus the book value of the asset will be zero at the expiry of the expected life of the asset.

Following accounts are maintained :

(1) For providing depreciation.

(*i*) Depreciation A/c Dr.

To Assets A/c (By name)

(For the depreciation of the asset)

(*ii*) Profit and Loss A/c Dr.

To Depreciation A/c

(For the amount of depreciation charged to P. & L. A/c)

Cash A/c

To Assets A/c (By name)

(For the sale price of scrap realised)

This method is used for providing depreciation on Furniture, Patents and Leases, etc.

**Advantages.**

(*i*) This method is very easy.

(*ii*) The value of assets can be reduced to zero.

(*iii*) Value of depreciation can be easily known.

Defects. Although this method is very simple yet it suffers from the following defects :

(*i*) In the beginning the asset depreciates less and in the last years its depreciates more rapidly. But under this method the amount of depreciation remains same every year.

(*ii*) No provision for interest is made on the value of assets.

(*iii*) When the machine is old enough, its repairing charges increase. But no attention is paid to this fact under this method.

**Illustration 17-1**

Sanjay Kumar & Brothers purchased a Machine for Rs. 11,000 on Jan. 1, 1979. The estimated life of the Machine is 10 years after which its break-up value will be Rs. 1,000 only. Find out the amount of annual depreciation and prepare the Machine Account for the first three years.

**Solution**

$$\text{Depreciation} = \frac{\text{Cost Price} - \text{Scrap Value}}{\text{Life of Asset}}$$

$$\text{Depreciation} = 1{,}000 \text{ Rs.} = \frac{11{,}000 - 1{,}000}{10} = 1{,}000 \text{ Rs}$$

*Dr.* MACHINERY ACCOUNT *Cr*

| | | Rs. | | | Rs. |
|---|---|---|---|---|---|
| 1979 Jan. 1 | To Cash A/c | 11,000 | 1979 Dec. 31 | By Depreciation A/c | 1,000 |
| | | | ,, ,, | By Balance c/d | 10,000 |
| | | 11,000 | | | 11,000 |
| 1980 Jan. 1 | To Balance b/d | 10,000 | 1918 Dec. 31 | By Depreciation A/c | 1,000 |
| | | | ,, ,, | By Balance c/d | 9,000 |
| | | 10,000 | | | 10,000 |
| 1981 Jan. 1 | To Balance b/d | 9,000 | 1981 Dec. 31 | By Depreciation A/c | 1,000 |
| | | | Dec. 31 | By Balance c/d | 8,000 |
| | | 9,000 | | | 9,000 |

2. **Diminishing Balance Method.** Under this method also the cost of the assets less estimated scrap value has to be written off over its estimated useful life. A certain percentage is calculated on the

book value, and not the cost of the asset. Thus the amount of depreciation goes on falling every year. The value of asset never comes to zero under this method.

**Its advantages**

(*i*) Under this method there is equal burden of depreciation and repairs on the Profit and Loss A/c.

(*ii*) The book-value of the asset never falls to zero.

(*iii*) This method is recognized by the income-tax law.

(*iv*) This is very simple.

(*v*) It needs no difficult calculations.

**Its disadvantages**

Although this method is simple and practicable yet it suffers from the following defects :

(*i*) Proper and sufficient depreciation is not provided under this method because the rate of depreciation is kept very low.

(*ii*) No account is kept of the interest on the value of assets.

(*iii*) Rate of depreciation cannot be easily decided.

**Illustration 17-2**

An asset was purchased for Rs. 10,000 on 1st January, 1975. It was decided to depreciate it at the rate of 10% per annum at the Diminishing Balance Method. At the commencement of the year 1976 and 1978 additions were made to it to the extent of Rs. 5,000 and Rs. 2,000 respectively. Show the Plant and Machinery Account up to the year 1979.

,40 −1000 13000 1000 9000

**Solution**

*Dr.* ASSET ACCOUNT *Cr.*

| Date | Particulars | Rs. | Date | Particulars | Rs. |
|---|---|---|---|---|---|
| 1975 Jan. 1 | To Cash A/c | 10,000 | 1975 Dec. 31 | By Depreciation A/c | 1,000 |
| | | | " " | By Balance c/d | 9,000 |
| | | 10,000 | | | 10,000 |
| 1976 Jan. 1 | To Balance b/d | 9,000 | 1976 Dec. 31 | By Depreciation A/c | 1,400 |
| Jan. 1 | To Cash A/c | 5,000 | " " | By Balance c/d | 12,600 |
| | | 14,000 | | | 14,000 |
| 1977 Jan. 1 | To Balance b/d | 12,600 | 1977 Dec. 31 | By Depreciation A/c | 1,260 |
| | | | " " | By Balance c/d | 11,340 |
| | | 12,600 | | | 12,600 |
| 1978 Jan. 1 | To Balance b/d | 11,340 | 1978 Dec. 31 | By Depreciation A/c | 1,334 |
| Jan. 1 | To Cash A/c | 2,000 | " " | By Balance c/d | 12,006 |
| | | 13,340 | | | 13,340 |
| 1979 Jan. 1 | To Balance b/d | 12,006 | 1979 Dec. 31 | By Depreciation A/c | 1,201 |
| | | | " " | By Balance c/d | 10,805 |
| | | 12,006 | | | 12,006 |

**Providing depreciation on the Assets purchased in the middle of the year**

Accountants have different opinions on this issue. Some believe that the depreciation is provided on the opening balance only and others believe that depreciation should also be provided on the asset purchased in the mid of the year. But it should be noted that if annual rate of depreciation is given it should be calculated keeping the period into consideration.

**Sale of asset during the year.** When an asset is sold in the mid of the year we should calculate the depreciation and find out the profit or loss on sale of asset.

**Illustration 17-3**

A manufacturing concern, whose books are closed on 31st December, purchased machinery for Rs. 50,000 on 1-1-75. Additional machinery was acquired for Rs. 10,000 on 1-7-76 and for Rs. 16,061 on 1-1-79 Certain machinery purchased for Rs. 10,000 on 1-1-75 was sold for Rs. 5,000 on 30-6-78.

Give the Machinery Account for 5 years writing off depreciation at 10% per annum on written down value.

**Solution**

MACHINERY ACCOUNT

*Dr.* | *Cr.*

| Date | Particulars | Rs. | Date | Particulars | Rs. |
|---|---|---|---|---|---|
| 1975 Jan. 1 | To Bank A/c | 50,000 | 1975 Dec. 31 | By Depreciation A/c | 5,000 |
| | | | Dec. 31 | By Balance c/d | 45,000 |
| | | 50,000 | | | 50,000 |
| 1976 Jan. 1 | To Balance b/d | 45,000 | 1976 Dec. 31 | By Depreciation A/c | 5,000 |
| July 1 | To Bank A/c | 10,000 | Dec. 31 | By Balance c/d | 50,000 |
| | | 55,000 | | | 55,000 |
| 1977 Jan. 1 | To Balance b/d | 50,000 | 1977 Dec. 31 | By Depreciation A/c | 5,000 |
| | | | Dec. 31 | By Balance c/d | 45,000 |
| | | 50,000 | | | 50,000 |
| 1978 Jan. 1 | To Balance b/d | 45,000 | 1978 June 30 | By Bank A/c | 5,000 |
| | | | June 30 | By Profit & Loss A/c | 1,925 |
| | | | Dec. 31 | By Depreciation A/c | 4,136 |
| | | | Dec. 31 | By Balance c/d | 33,939 |
| | | 45,000 | | | 45,000 |
| 1979 Jan. 1 | To Balance b/d | 33,939 | 1979 Dec. 31 | By Depreciation A/c | 5,000 |
| Jan. 1 | To Bank A/c | 16,061 | Dce. 31 | By Balance c/d | 45,000 |
| | | 50,000 | | | 50,000 |
| 1980 Jan. 1 | To Balance b/d | 45,000 | | | |

**Note.** Calculation is made near to rupee. Calculation of loss is as follows :

| | Rs. |
|---|---|
| Cost on 1-1-75 | 10,000 |
| *Less* : Depreciation for 1975 | 1,000 |
| | 9,000 |
| *Less* : Depreciation for 1976 | 900 |
| | 8,100 |
| *Less* : Depreciation for 1977 | 810 |

| | |
|---|---|
| | 7,290 |
| *Less* : Depreciation up to 30-6-78 | 365 |
| | 6,925 |
| *Less* : sales proceeds | 5,000 |
| Loss | 1,925 |

**Illustration 17-4**

A company bought machinery worth Rs. 1,00,000 including a boiler worth Rs. 10,000. The Machinery Account had been credited for depreciation on the reducing instalment system for the past four years at the rate of 10%. During the fifth year, the boiler became useless on account of damage to some of its vital parts. The damaged boiler was sold for Rs. 2,000 which was credited to' Machinery Account. The Machinery Account is to be adjusted by taking into consideration the loss on account of the damaged boiler. How would you record the above transactions in the books of the company ?

(*Delhi Senior School Certificate Examination, 1978*)

**Solution**

*Dr.* MACHINERY ACCOUNT *Cr.*

| | Rs. | | Rs. |
|---|---|---|---|
| To Bank A/c | 1,00,000 | By Depreciation A/c | 10,000 |
| | | By Balance c/d | 90,000 |
| | 1,00,000 | | 1,00,000 |
| To Balance b/d | 90,000 | By Depreciation A/c | 9,000 |
| | | By Balance c/d | 81,000 |
| | 90,000 | | 90,000 |
| To Balance b/d | 81,000 | By Depreciation A/c | 8,100 |
| | | By Balance c/d | 72,900 |
| | 81,000 | | 81,000 |
| To Balance b/d | 72,900 | By Depreciation A/c | 7,290 |
| | | By Balance c/d | 65,610 |
| | 72,900 | | 72,900 |
| To Balance b/d | 65,610 | By Bank A/c | 2,000 |
| | | By Profit & Loss A/c | 4,561 |
| | | By Depreciation A/c | 5,905 |
| | | By Balance c/d | 53,144 |
| | 65,610 | | 65,610 |

Loss has been calculated as follows :

| | Rs. |
|---|---|
| Cost of boiler | 10,000 |
| *Less* : Depreciation for the 1st year | 1,000 |
| | 9,000 |
| *Less* : Depreciation for the 2nd year | 900 |
| | 8,100 |
| *Less* : Depreciation for the 3rd year | 810 |
| | 7,290 |
| *Less* : Depreciation for the 4th year | 729 |
| | 6,561 |
| *Less* : Sale proceeds | 2,000 |
| Loss on sales of Machinery | 4,561 |

**Illustration 17-5**

A manufacturing Company purchased on 1st January, 1975, certain machinery for Rs. 19,400 and spent Rs. 600 on its erection. On 1st July in the same year additional machinery costing Rs. 10,000 was acquired. On 1st July, 1977, the machinery purchased on 1st January, 1975, having become obsolete, was auctioned for Rs. 8,000, and on the same date fresh machinery was purchased at cost of Rs. 15,000.

Depreciation was provided annually on 31st December at the rate of 10 per cent per annum on the original cost of the asset. In 1978, however, the firm changed this method to one of writing off 15 per cent on the written down value.

Give the Machinery Account as it would stand at the end of each year from 1975 to 1979. Make your calculations to the nearest rupee.

**Solution**

MACHINERY ACCOUNT

| | | Rs. | | | Rs. |
|---|---|---|---|---|---|
| 1975 Jan. 1 | To Cash A/c (Purchase Price) | 19,400 | 1975 Dec. 31 | By Depreciation A/c | 2,500 |
| | To Cash A/c (Cost of erection) | 600 | " " | By Balance c/d | 27,500 |
| July 1 | To Cash A/c | 10,000 | | | |
| | | 30,000 | | | 30,000 |
| 1976 Jan. 1 | To Balance b/d | 27,500 | 1976 Dec. 31 | By Depreciation A/c | 3,000 |
| | | | | By Balance c/d | 24,500 |
| | | 27,500 | | | 27,500 |
| 1977 Jan. 1 | To Balance c/d | 24,500 | 1977 July 1 | By Cash A/c | 8,000 |
| July 1 | To Cash A/c | 15,000 | Dec 31 | By Depreciation A/c | 2,750 |
| | | | | By P. & L. A/c (Loss on sale of machinery) | 7,000 |
| | | | | By Balance c/d | 21,750 |
| | | 39,500 | | | 39,500 |
| 1978 Jan. 1 | To Balance b/d | 21,750 | 1978 Dec. 31 | By Depreciation A/c | 3,263 |
| | | | | By Balance c/d | 18,487 |
| | | 21,750 | | | 21,750 |
| 1979 Jan. 1 | To Balance b/d | 18,487 | 1979 Dec. 31 | By Depreciation A/c | 2,773 |
| | | | | By Balance c/d | 15,714 |
| | | 18,487 | | | 18,487 |

(3) **Annuity Method**—It is presumed under this method that if money has been invested elsewhere instead of purchasing the asset it could earn some interest. Interest at the specified rate is added to the book value of the asset by credit to Interest Account. Every year the same amount is written off in such a manner as to reduce the value of the asset to nil. The amount of the depreciation is ascertained by use of annuity tables. A specimen of such a tables is given here. In other words the amount of depreciation is fixed which is calculated from the Annuity Tables. Under this method at the end of the year the value of the asset is reduced to its scrap value.

ANNUITY TABLE

| Years | 3% | 3½% | 4% | 4½% | 5% |
| --- | --- | --- | --- | --- | --- |
| 3 | ·35353 | ·35693 | ·36035 | ·36377 | ·36721 |
| 4 | ·30903 | ·27225 | ·27549 | ·27874 | ·28201 |
| 5 | ·21836 | ·22148 | ·29463 | ·22729 | ·23098 |
| 6 | ·18460 | 18767 | ·19076 | ·19388 | ·19702 |
| 7 | ·16051 | ·16354 | ·16661 | ·16970 | ·17282 |
| 8 | ·14246 | ·14584 | ·14853 | ·15161 | ·15472 |
| 9 | ·12843 | ·13145 | ·13449 | ·13757 | ·14069 |
| 10 | ·11723 | ·12024 | ·12329 | ·12638 | ·12951 |
| 11 | ·10808 | ·11109 | ·11415 | ·11725 | ·12039 |
| 12 | ·10046 | ·10348 | ·10655 | ·10967 | ·11283 |
| 13 | ·09403 | ·09706 | ·10014 | ·10328 | ·10646 |
| 14 | ·08853 | ·09155 | ·09467 | ·09782 | ·10102 |
| 15 | ·08377 | ·08894 | ·08894 | ·09311 | ·09634 |

Following accounts are maintained under this method :

1. Entry for charging interest :

Asset A/c (By name) Dr.
To Interest A/c
(For interest charged on capital sunk in the asset)

2. Entry for charging depreciation :

Depreciation A/c Dr.
To Asset A/c (By name)
(For the depreciation of the asset)

**Illustration 17-6**

On 1st January, 1977 Naresh Kumar Gupta purchased a 14 years' lease for Rs. 20,000. It has been decided to depreciate the lease by the annuity method. Annuity tables show that the amount to be written off is Rs. 1,831. The investments yielding 3½% per annum interest. Show the leasehold Premises A/c for the first two years.

**Solution**

LEASEHOLD PREMISES A/C

| | | | | | |
|---|---|---|---|---|---|
| 1977 | | Rs. | 1977 | | Rs. |
| Jan. 1 | To Bank A/c | 20,000 | Dec. 31 | By Depreciation A/c | 1,831 |
| Dec. 31 | To Interest A/c | 700 | Dec. 31 | By Balance c/d | 18,869 |
| | | 20,700 | | | 20,700 |
| 1978 | | | 1978 | | |
| Jan. 1 | To Balance b/d | 18,869 | Dec. 31 | By Depreciation A/c | 1,831 |
| Dec. 31 | To Interest A/c | 660·42 | Dec. 31 | By Balance c/d | 17,698 42 |
| | | 19,529·42 | | | 19,529·42 |
| 1979 | | | | | |
| Jan. 1 | To Balance b/d | 17,698·42 | | | |

**Illustration 17·7**

Delhi & Sons purchased a plant for Rs. 14,000 on 1st January 1978 which is expected to serve for 10 years. You are required to open Plant A/c for the first two years and charging interest @ 5% per annum. Annuity table shows that the amount of depreciation on a 5% basis for a life of 10 years is Rs. 1,813 per annum.

**Solution**

PLANT ACCOUNT

| | | | | | |
|---|---|---|---|---|---|
| 1978 | | Rs. | 1978 | | Rs. |
| Jan. 1 | To Cash | 14,000 | Dec. 31 | By Depreciation | 1,813 |
| Dec. 31 | To Interest A/c | 700 | | By Balance c/d | 12,887 |
| | | 14,700 | | | 14,700 |
| 1979 | | | 1979 | | |
| Jan. 1 | To Balance b/d | 12, 887 | Dec. 31 | By Depreciation | 1.813 |
| Dec. 31 | To Interest A/c | 644 | | By Balance c/d | 11,718 |
| | | 13,531 | | | 13,531 |

(4) **Depreciation Fund Method.** Under this method a fixed amount is provided as depreciation and debited to P.&L.A/c each year, and a corresponding amount is invested every year in securities. At the time of replacement the securities are sold and the cash realised is used to buy the asset.

**Disadvantages are :**

1. This is based on many assumptions and as such is not only difficult but almost impracticable.

2. It is a very complicated method.

3. No equitable distribution of repairs and depreciation over the years on profit and loss account. In the first few years the effect is much less than in the later years.

(*a*) In the first year following entries are passed after finding out the amount of depreciation from the sinking fund Tables.

(*i*) Depreciation A/c (or Profit and Loss A/c) Dr.
To Depreciation Fund A/c
(For Depreciation Fund A/c created)

(*ii*) Depreciation Fund Investment A/c Dr.
To Bank A/c
(For the above amount invested in securities)

(*b*) In the following years the entries to be passed are :
Depreciation Fund Investment A/c Dr.
To Depreciation Fund A/c
(For the amount of interest on investments re-invested)

Charging Depreciation

(*i*) Profit and Loss A/c (or Depreciation A/c) Dr.
To Depreciation Fund A/c
(For annual instalment of depreciation charged)

(*ii*) Depreciation Fund Investment A/c Dr.
To Bank A/c
(For the Investment of the above amount)

(*iii*) Selling of the Securities
Bank A/c Dr.
To Deprec... . Fund Investment A/c
(For realisation of the Investment)

**Illustration 17-8**

Messrs. Cox. & Vox. Co. purchased on 1st January, 1978 a three years' lease of a large building for Rs. 50,000 and decided to make provisions for its replacement by means of a Depreciation Fund, the investments yielding 3 per cent per annum interest Write up the necessary ledger accounts dealing with this matter. An annuity of one rupee at 3 per cent per annum amounts to Rs. 3.0909 in 3 years. Make your calculations to the nearest rupee.

$$=\frac{1\times 50{,}000}{3{\cdot}0909}=\text{Rs. } 16{,}176{\cdot}52$$

$$=\text{Rs. } 16{,}177 \text{ (to the nearest rupee)}$$

Dr. **LEASEHOLD PROPERTY A/C** Cr.

| | | | | | |
|---|---|---|---|---|---|
| 1978 Jan. 1 | To Bank A/c | Rs. 50,000 | 1978 Dec. 31 | By Balance c/d | Rs. 50,000 |
| 1979 Jan. 1 | To Balance b/d | 50,000 | 1979 Dec. 31 | By Balance c/d | 50,000 |
| 1980 Jan. 1 | To Balance b/d | 50,000 | 1980 Dec. 31 | By Depreciation Fund A/c | 50,000 |

**DEPRECIATION FUND ACCOUNT**

| | | | | | |
|---|---|---|---|---|---|
| 1978 Dec. 31 | To Balance c/d | Rs. 16,177 | 1978 Dec. 31 | By P. & L. A/c | Rs. 16,177 |
| 1979 Jan. 1 | To Balance c/d | 32,839 | 1979 Jan. 1 | By Balance b/d | 16,177 |
| | | | | By Dep. Fund Investment A/c (Int) | 485 |
| | | | Dec. 31 | By P. & L. A/c | 16,177 |
| | | 32,839 | | | 32,839 |
| 1980 Jan. 31 | To Leasehold Property | 50,000 | 1980 Jan. 1 | By Balance b/d | 32,839 |
| | | | Dec. 31 | By Dep. Fund Investment A/c (Int.) | 985 |
| | | | | By P. & L. A/c | 16,176 |
| | | 50,000 | | | 50,000 |

**Note.** At the end of 1980 securities will not be purchased.

471.50
1177450
122450

## DEPRECIATION FUND INVESTMENT ACCOUNT

| | | Rs. | | | Rs. |
|---|---|---|---|---|---|
| 1978 Dec. 31 | To Bank A/c | 16,177 | 1978 Dec. 31 | By Balance c/d | 16,177 |
| 1979 Jan. 1 | To Balance b/d | 16,177 | 1979 Dec. 31 | By Balance c/d | 32,839 |
| Dec. 31 | To Depreciation Fund A/c (Int.) | 485 | | | |
| " " | To Bank A/c | 16,177 | | | |
| | | 32,839 | | | 32,839 |
| 1980 Jan. 1 | To Balance b/d | 32,839 | 1980 Dec. 31 | By Bank | 50,000 |
| Dec. 31 | To Depreciation Fund A/c (Int.) | 985 | | | |
| | To Bank A/c | 16,176 | | | |
| | | 50,000 | | | 50,000 |

5. **Insurance Policy Method**—Under this method the asset is insured with an insurance company equal to the cost price or Replacement value of the asset. The amount of annual depreciation is used in payment of the premium. This method is popular because the amount is easily recovered on the expiry of the period.

**The advantages are :**

1. It is very simple to maintain.

2. There is no risk in replacement value, as the loss is made good by insurance company.

3. Since it is simple, it is very popular.

**The disadvantages are :–**

1. The amount of depreciation and repairs go on increasing year after year.

2. There is no interest provided on replacement value. As such it is costlier.

**Accounting Entries**

(A) Charging Depreciation :
Depreciation A/c (or P. and L. A/c) Dr.
To Depreciation Fund A/c

(B) Payment of Premium :
Depreciation Fund Policy A/c Dr.
To Bank A/c

(C) Receiving the Policy :
Bank A/c Dr.
To Depreciation Fund Policy A/c

**Illustration 17-9**

On Jan. 1, 1976 Mr. Sunil Kumar purchases a three years' lease of premises for Rs. 15,000 and it is decided to make provisions for its replacement by means of an Insurance Policy purchased for an annual premium of Rs. 4,800. Show the Ledger Accounts dealing with this matter.

**LEASEHOLD PROPERTY ACCOUNT**

| | | | | | | |
|---|---|---|---|---|---|---|
| 1976 Jan. 1 | To Cash A/c | | Rs. 15,000 | By Depreciation Fund A/c | | Rs. 15,000 |

**DEPRECIATION ACCOUNT**

| | | | | | |
|---|---|---|---|---|---|
| 1976 Dec. 31 | To Balance c/d | Rs. 4,800 | 1976 Dec. 31 | By P. & L. A/c | Rs. 4,800 |
| 1977 Dec. 31 | To Balance c/d | 9,600 | 1977 Jan. 31 | By Balance b/d | 4,800 |
| | | | | By P. & L. A/c | 4,800 |
| | | 9,600 | | | 9,600 |
| 1978 Dec. 31 | To Leasehold Property A/c | 5,000 | 1978 Jan. 31 | By Balance b/d | 9,600 |
| | | | | By P. & L. A/c | 4,800 |
| | | | | By Leasehold Policy A/c | 600 |
| | | 15,000 | | | 15,000 |

*Dr.* **LEASEHOLD POLICY ACCOUNT** *Cr.*

| | | | | | |
|---|---|---|---|---|---|
| 1976 Dec. 31 | To Cash A/c | Rs. 4,800 | 1976 Dec. 31 | By Balance c/d | Rs. 4,800 |
| 1977 Jan. 1 | To Balance b/d | 4,800 | 1977 Dec. 31 | By Balance c/d | 9,600 |
| Dec. 31 | To Cash A/c | 4,800 | | | |
| | | 9,600 | | | 9,600 |
| 1978 Jan. 1 | To Balance b/d | 9,600 | 1978 Dec. 31 | By Cash A/c | 15,000 |
| Dec. 31 | To Cash A/c | 4,800 | | | |
| ,, ,, | To Depreciation Fund A/c | 600 | | | |
| | | 15,000 | | | 15,000 |

6. **Revaluation Method**—Under this method the value of the asset is determined at the end of the year. Whatever amount is reduced is shown as depreciation to the Profit & Loss A/c.

**The advantages are :**

1. This is simple as while revaluating, the use of the machine is taken into account. The greater the use, the higher will be the depreciation

**The disadvantages are :**

1. There is the difficulty of valuation of old assets. The valuation is to be done by experts.

2. While valuation is made, the expert looks to the market value, whereas when depreciation is to be calculated, it is the book value which is always cared for.

3. The impact of depreciation changes every year on Profit and Loss Account.

Entry for reduction in the value of asset.

Profit and Loss A/c Dr.

To assets A/c (By Name)

(For depreciation brought into account)

If the value of the asset increases a reverse entry is passed. This method is used in case of Loose Tools, Motor Vehicles, etc.

**Illustration 17-10**

On 1st January, 1979 Messrs Sanjay Kumar & Co. had a stock of loose tools valued at Rs. 10,000. On 31st December, 1979 the entire stock of loose tools was revalued at Rs. 9,000. Show the Loose Tools A/c for 1979.

LOOSE TOOLS ACCOUNT

| | | Rs. | | | Rs. |
|---|---|---|---|---|---|
| 1979 Jan. 1 | To Balance b/d | 10,000 | 1979 Dec. 31 | By Depreciation A/c | 1,000 |
| | | | ,, | By Balance c/d | 9,000 |
| | | 10,000 | | | 10,000 |
| 1980 Jan. 1 | To Balance b/d | 9,000 | | | |

**Some other Methods of Calculating Depreciation**

In addition to the various methods of providing depreciation on assets, some other methods are briefly discussed below.

7. **Machine Hour rate Method**—Under this method it is assessed as to how many hours the machine shall be able to work. That becomes the life of the machine. After deducting the value of the scrap from the total value of the machine, this value is divided by the hours of machine life. This gives the 'use value' or depreciation per hour :

$$\text{Depreciation per hour} = \frac{\text{Cost of machine} - \text{Scrap value}}{\text{Estimated life in hours}}$$

After calculating depreciation value per working hour, it is calculated as to how many hours the machine has worked during the year. And by multiplication the amount of depreciation for the year is found out.

The main characteristic of this system is that depreciation is calculated on the working life of the machine, and as such it is often considered a better method of straight line method and diminishing depreciation method. The method is most popular at places where machines are more in use.

8. **Deplation Method**—This method is considered appropriate in cases of mines, oil wells and the like. After estimating the total output, the same is divided by the value of the mine. This becomes the depreciation per unit.

9. **The Use Method or Mileage Method**—On some assets, the depreciation is calculated on its use on the road or mileage. This is considered most appropriate in respect of truck, bus, car and scooter, etc. The life of these vehicles is calculated in kilometres. The depreciation per kilometre is arrived at by dividing the cost with the life mileage. The mileage covered during the year multiplied by depreciation per mile gives the total depreciation for the year.

10. **Sum of the years Digits Method**—Under this method the life years of the asset are added up numerically. The value of the asset after deducting the scrap value is divided by the total numerical value. That will give the depreciation of one unit. This will be multiplied by numbers in the reverse order to arrive at the yearly depreciation of that asset. For example, a machine costs Rs. 1,20,000. The life is estimated as 10 years. The value of scrap is estimated as Rs. 10,000. The depreciation will be calculated as under :

The numerical value of 10 years will be as :

$$1+2+3+4+5+6+7+8+9+10=55$$

$$\frac{\text{Cost price - Scrap value}}{\text{Total no. of digits}}$$

$$= \frac{1{,}20{,}000 - 10{,}000}{55} = \frac{1{,}10{,}000}{55} = \text{Rs. } 2{,}000.$$

Depreciation for first year $=2{,}000 \times 10 = 20{,}000$

" for second " $=2{,}000 \times 9 = 18{,}000$

" for third " $=2{,}000 \times 8 = 16{,}000$ etc.

**Illustration 17-11**

*A B C* & Co. acquired a machine at a cost of Rs. 9,960. was expected to last for 6 years with a scrap value of Rs. 300. Find out the depreciation and the written down value for the first year under sum of the years digits.

**Solution**

Add the numbers of representing the period of life

$\therefore \quad 1+2+3+4+5+6=21$

Total Digits=21

$$\text{Depreciation for one digit} = \frac{C-S}{\text{Total Digits}}$$

$$= \frac{9{,}660-300}{21} = \text{Rs. } 460$$

$\because$ Depreciation of one digit=Rs. 460

$\therefore$ Depreciation of six digits=Rs. $460 \times 6$=Rs. 2,760.

**Standard Questions**

1. What is depreciation? Why is it provided in the accounts of a business concern?
2. What is depreciation and how is it caused ? Distinguish between the 'Straight Line Method' and the 'Written Down Value Method of Depreciation' of capital assets.
3. Explain the different methods of providing depreciation ?
4. What are the methods of providing depreciation ? Discuss the advantages and disadvantages relating to each method.
5. What is the need of providing depreciation ?
6. Why is depreciation considered as a non-cash expenditure ? Properly define it and explain and illustrate the Sinking Fund Method of providing depreciation.
7. What are the different methods of charging depreciation ? What specific method would you suggest if you want to have the money ready to replace the asset at the end of its working life.
8. Depreciation is provided either by maintenance and replacements out of revenue or by the creation of reserve out of profits. Discuss the relative merits of each of these methods.

**Practical**

**Straight Line Method**

1. On 1st January 1975 an asset was purchased for Rs. 52,000. The estimated life of the asset is 5 years after which its break up value will be Rs. 2,000 only. Prepare the Asset Account for the first five years by the staight line method ?
2. Office furniture having been purchased for Rs. 2,000, on 1st January, 1978, it was decided to write off 5% depreciation on the original cost each year. Prepare the office furnitue A/c for the first three years.

   **Ans.** Amount of depreciation Rs. 100.
3. Naresh Kumar & Co., purchased Machinery for Rs. 40,000 on 1st Jan., 1971. The Machinery is depreciated at 10% per annum on the original cost. On 1st July, 1975 the machinery was sold for Rs. 16,000

   Give the Machinery Account, assuming the books are closed on 31st December each year.

4. A company whose accounting year is the calendar year, purchased on 1st April, 1975 machinery costing Rs. 30,000

It further purchased machinery on 1st October, 1975 costing Rs. 20,000 and on 1st July, 1976 costing Rs. 10,000.

On 1st January, 1977 one-third of the machinery which was installed on 1st April 1975 became obsolete and was sold for Rs. 3,000.

Show how the machinery account would appear in the books of the company. The depreciation being charged at 10% per annum on Fixed Instalment Method.

Ans. Balance Rs. 38,500.

**Diminishing Balance Method**

5. The original cost of Fixtures and Furniture amounted to Rs. 4,000 and it is decided to write off depreciation at 5% on the Diminishing Balance Method. Show the furniture A/c for the first four years.

6. A boiler was purchased from abroad for Rs. 10,000. Shipping and forwarding charges to Rs. 2,000, Import Duty Rs. 7,000 and expenses of installing amounted to Rs. 1,000.

Calculate depreciation for the first three years (separately for each year) @ 10% on Diminishing Balance Method.

Ans. Balance after three years Rs. 14,580.

7. A plant is purchased for Rs. 20,000. It is depreciated at 5% p.a. on reducing balance for five years when it becomes obsolete due to new method of production and is scrapped. The scrap produces Rs. 5,385. Show the Plant account in the ledger.

8. A Joint Stock Company had bought Machinery for Rs. 2,00,000 iucluding therein a boiler worth Rs. 20,000. The Machinery in Account was for the first four years credited for depreciation on the reducing instalment system at the rate of 10% per annum. During the fifth current year, the boiler became useless on account of damage to some of its vital parts. The damaged boiler is sold for 4,000 which amount is credited to Machinery Account.

Prepare the Machinery A/c for the current year, adjusting therein the cash received for and loss suffered on the damaged boiler, and the depreciation on Machinery for the current year.

Ans. Loss on sale Rs. 9,122, Balance Rs. 1,06,288.

9. A company purchased a machine for Rs. 18,500 on 1st January 1973 and spent Rs. 1,000 on it repairs and Rs 500 on its installation. A second machine was purchased for Rs. 10,000 on 1st July, 1974. On 1st July 1975, the machine purchased on 1st January 1973 was sold for Rs. 12,000 and a new machine was purchased for Rs. 15,000. Depreciation is charged at 10%

per annum on diminishing balance method. Show the Machinery Account from 1973 to 1975.

Ans. Balance of machinery on 31 12-75 Rs. 22,800.

**Straight Line & Diminishing Balance Method—Change of Method**

10. If an asset was purchased for Rs. 50,000 on 1st January, 1975, what would be its book value three years after if it were depreciated by both the methods—(*i*) Straight Line Method : and (*ii*) Written Down Value Method at the rate of 10% per annum. Show your answer by a tabular ledger account.

Ans. Straight Line Method Rs 35,000 ; Written down value method Rs. 36,450.

11. The original cost of Furniture amounted to Rs. 4,000 and it is decided to write off 5% on the original cost as depreciation at the end of each year. Show the Ledger Account as it will appear during the 1st four years. Show also how the same account will appear if it was decided to write off 5% on the diminishing balance of the Asset each year.

12. A limited company purchased on 1-1-1973 a machine for Rs. 6,000 and immediately spent Rs. 4,000 for its repairs. On 1st July in the same year additional machine costing Rs. 5,000 was purchased. On 1st July, 1975 the machine acquired on 1st January 1973, having became obsolete was sold off for Rs. 2,000. On the same date fresh machine was purchased at a cost of Rs 12,000. Depreciation was provided for annually on 31st December at the rate of 10% per annum on the original cost of the asset. In 1976, however, the company changes this method of providing depreciation and adopted the method of writing off 15% on the diminishing value.

Show the machinery Account as it would appear at the end of each year from 1973-78.

Ans. Balance of Machine A/c on 1-1-1979 Rs. 9,304 and loss Rs. 5,500.

13. A second hand Machinery was purchased on 1st January, 1970 for Rs. 30,000 and Rs. 6,000 and Rs. 4,000 was spent on its repairs and erection immediately. On 1st July, 1971 another machinery was purchased for Rs. 26,000 and on 1st July 1972 the first machinery having become obsolete was auctioned for Rs. 30,000. On the same date another machine was purchased for Rs. 25,000. On 1st July, 1973 the second machinery was also sold off and it fetched Rs. 23,000.

Depreciation was provided, on machinery at the rate of 10 per cent on the original cost annually on 31st December. In 1972 the method of providing depreciation was changed to the written down (diminishing value method) the rate of depreciation being 15 per cent.

You are required to prepare machinery account for all the calendar years mentioned he ह to fore.

**Working Notes**

(*i*) Calculation of depreciation for the year 1972
Book value of 2nd machine on 1-1-72

| | | |
|---|---|---|
| | Rs. 26,000 – Rs. 1,300=24,700 | |
| Depreciation @ 15 % | 3,705 | |
| Depreciation on 3rd machine @ 15% On Rs. 25,000 for 6 months | 1,875 | |
| | 5,580 | |

(*ii*) Calculation of depreciation for the year 1973 and Profit on Sale

| | | |
|---|---|---|
| (*a*) Second machine—Book value on 1-1-72 | | 24,700 |
| Depreciation for 1972 | | —3,705 |
| | | 20,995 |
| Depreciation for 1973, six months | | —1,575 |
| | | 19,420 |
| Sale Proceeds | | 23,000 |
| Profit on sale of machine Rs 23,000—Rs. 19,420 | | |
| =Rs. | 3,580 | |
| (*b*) Third Machine-Book value on 1-7-72 | 25,000 | |
| Depreciation for 1972 | 1,875 | |
| | 23,125 | |
| Depreciation for 1973 | 3,469 | |

14. A Limited company purchased second hand machinery on 1st January 1975 for Rs. 74,000 and spent Rs. 6,000 on its repairs and installations. On 1st July 1976, it purchased another machine for Rs. 20,000 and on 1st July 1977, it sold the first machine which was purchased in 1975 for Rs. 56,000. On 1st July 1978, the second machine purchased for Rs. 20,000 was sold for Rs 4 000.

Depreciation was provided on Machinery at the rate of 10 per cent on the original cost annually on 31st December. In 1977 however, the company changed the method of providing the depreciation and adopted the written down value method, the rate of depreciation being 15 per cent per annum.

Prepare the Machinery Account for four years commencing from 1st January, 1975.

Ans. Balance Rs. 39,312.

15. A company purchased a second-hand machinery on 1st January, 1974 for Rs. 37,000 and immediately spent on Rs. 2,000 on its repairs and Rs. 1,000 on its erection. On 1st July, 1975 it purchased another machine for Rs. 10,000 and on 1st July, 1976, it sold off the first machine purchased in 1974 for Rs. 28,000, on the same date it purchased a machinery for Rs. 25,000. On 1st July, 1977 the second machinery purchased for Rs. 10,000 was also sold off for Rs. 2,000.

Depreciation was provided on the machinery at a rate of 10% on the original cost annually on 31st December. In 1972, however, the company changed the method of providing depreciation and adopted the written down value method, rate of depreciation being 15%.

Give the Machinery Account for four years commencing from 1st January, 1974. Calculations are to be made to the nearest rupee. *(S.S.C. All India 1979)*

**Annuity Method**

16. Moti and Sons purchased a plant for Rs. 14,000 on 1st January 1977 which is expected to serve for 10 years You are required to open Plant A/c for the first two years and charging interest @ 5% per annum. You find from the Depreciation Annuity Table that the amount of depreciation on a 5% basis for a life of 10 years is Rs. 1,813 per annum.

17. Mr. *M*. purchased a lease for Rs. 20,000. It is to be depreciated over the period of five years on the annuity system. The rate of interest is 5%. Annuity table shows that the amount to be written off is Rs 4,619·60. Show the Lease Account and also show how the Profit and Loss Account will be affected.

18. A Company acquires a lease costing Rs. 15,000 for a term of 5 years. You find from the Actuarial Tables that in order to write off the lease on annuity method at 5% interest per annum, the amount to be written off annually as depreciation amounts to Rs. 3,464·60. Prepare the Lease Account for all the five years and show the annual net charge to Profit and Loss A/c during each of these five years.

**Depreciation Fund Method**

19. A firm of Army Contractors purchases, on 1st January, 1976, a three years' lease of a large building for Rs. 1,00,000 and decided to make provision for its replacement by means of a Depreciation Fund, the investments yielding 3% per annum interest.

Write up the necessary ledger accounts dealing with this matter. An Annuity of one rupee at 3% per annum interest amounts to Rs. 3 0909 in three years. Make your calculations to the nearest rupee.

20. On 1st January 1976, a firm obtained a lease of land for three years for Rs. 40,000 and decided to make provisions for its replacement by means of a Depreciation Fund the investment yielding 4 per cent interest. By referring to Sinking Fund Table it is ascertained that Rs. 12,814 should be charged as depreciation.

Write up necessary ledger accounts.

21. Machinery was acquired on 1st January, 1975 at a cost of Rs. 40,000. The life of the machine was 5 years. It was decided to establish a Depreciation Fund to provide funds for its replacement. Investments yielded 5% per annum. The annual amount credited to the Fund was Rs. 7,240.

Prepare the Machinery Account, Depreciation Fund and Depreciation Fund Investment Accounts for all the years. Investments are made in the multiples of hundred.

**Insurance Policy Method**

22. Yellow Ltd. purchases a lease for Rs. 25,000 to be replaced at the end of 5 years. For this purpose an insurance policy is taken out and for which the annual premium is Rs. 4,700. At the end of the period, the lease is renewed at Rs. 22,500. Show the various accounts in the books of the company.

23. Mr. Blue, has acquired manganese mines on payment of Rs. 1,00,000 on 1-4-1971. The lease period is five years. He proposes to provide for its replacement by means of an insurance policy for Rs. 1,00,000. The annual premium is Rs. 9,750. On 1st April 1976 the lease is renewed for a further period of five years for the same amount. Show the necessary ledger accounts.

**Ans.** Profit on the realisation of policy Rs. 51,25).

24. A five year lease worth Rs. 30,000 is to be depreciated on annuity system, the unwritten balance of the asset bearing interest at 5%. The annual amount to be written off as shown by the Annuity Table is Rs. 6,929·24.

Show your working of the lease account for the whole of the period.

**Revaluation Method**

25. On 1st January, 1977 Mr. Flower, had a stock of furniture valued at Rs. 5,000. On 31st December 1977 the entire stock of furniture was revalued at Rs. 4,300. Show the Furniture A/c for 1977.

**Sum of the Year's digits Method**

26. Machinery was purchased for Rs. 45,000 on 1st January, 1979 and depreciation was charged following the sum of the year's digits method assuming its useful life to be 5 years. What was

the amount of depreciation charged in 1979 ?

Ans. Dep. for 1979 Rs. 15,000.

27. From the following data find out the depreciation for the year 1978 according to the sum of the year's digits method :

Date of acquisition of the Machine January 1, 1977.

Cost Rs. 1,10,100.

Scrap value Rs. 11,000.

Estimated useful life 10 years.

Ans. Dep. for 1978 Rs. 16,200.

**Hint.** (1,10,000—11,000 × 9/55).

# 18

# Bills of Exchange

In modern times there are very few cash transactions. Most of the transactions are on credit. The trade has expanded with the progress of science. So the businessman is in a position to enter many more transactions than his actual capital. The businessman purchases goods and makes payment in future and similarly he sells goods and receives payment in future. The problem of future payment can be easily solved with the help of credit instruments like bills of exchange, promissory notes, hundis and cheques.

**Definition of a Bill of Exchange**

According to Indian Negotiable Instrument Act, "A Bill of Exchange is an instrument in writing containing an unconditional order signed by the maker directing to pay a certain sum of money only to the order of a certain person or the bearer of the instrument."

**Essentials of a Bill of Exchange**

On the basis of the above definition following are the essentials of a bill of exchange :

(*i*) Bill of exchange is in writing.
(*ii*) It is unconditional.
(*iii*) It contains an order for payment of cash.
(*iv*) The amount of bill of exchange is definite.
(*v*) The date of payment is fixed.
(*vi*) It is signed by the maker.
(*vii*) The amount of the bill is payable to the drawer or to his order.
(*viii*) An order for payment is given to the acceptor.

---

Rs. 1,000

62, Tagore Park, Model Town,
Delhi, 15th April, 1981.

| Stamp |
|---|

*Three months after date, pay to us or our order the sum of Rupees one thousand only, for value received*

For Gupta Bros.
Harish Gupta
Manager

To

M/s Anil Kumar Sunil Kumar & Bros.
MATHURA

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**Parties to a Bill of Exchange**

There are following parties to a bill of exchange :

(1) **Drawer.** He is the person who is entitled to receive money from someone and he writes a bill on his debtor. The bill of exchange is signed by the drawer.

(2) **Acceptor or Drawee.** The person whose name is given in the bill of exchange is called the acceptor. He has to make payment on the expiry of the period of the bill of exchange.

(3) **Payee.** The person who receives payment is called the payee. Sometimes the drawer and the payee is the same person.

**Important points about Bill of Exchange**

(1) **Place and Date.** The city or the town where the payment of the bill of exchange is to be made should be mentioned in the bilt of exchange. The date of payment should also be given.

(2) **Stamp.** All bills of exchange, except payable on demand should be stamped according to the amount of the bill of exchange.

(3) **Term.** The bill of exchange is payable after a certain period from the date of writing. This is called the term of a bill of exchange.

(4) **Date of Payment.** This is the date when the bill is to be paid. Three days of grace are added to the date of maturity.

(5) **Amount.** Amount is written at two places, one is figures and the other in words. These two amounts should be the same.

(6) **Name of the Acceptor.** It is necessary to write the name of the acceptor.

(7) **For Value Received.** These words are written on every bill of exchange. These words mean that the acceptor of the bill has received the value written in the bill of exchange.

**Advantages of Bill of Exchange**

There is much impórtance of the bill of exchange in the modern business world. A businessman gets the following advantages from a bill of exchange :

(1) **Helpful in increase of Business.** A businessman can succeed in increasing his business with the help of bill of exchange because he can purchase goods on credit by accepting a bill of exchange.

(2) **Saving of money.** With the use of bill of exchange there is saving of money because functions of money are performed by the bill of exchange.

(3) **Foreign Payment Easy.** Even the largest foreign payments are possible with the help of bill of exchange.

(4) **Legal Document**. Bill of exchange is a legal document. If the acceptor does not make payment, the drawer can realise the money with the help of court.

(5) **Endorsement possible**. As it is a negotiable instrument it can easily be endorsed.

(6) **Discounting possible**. If the businessman needs money immediately he can get it discounted with the bank.

(7) **Easy to purchase Goods.** It is not necessary to make payment for all the purchases. The businessman can accept a bill instead.

(8) **Proof of Debt.** When the bill is accepted the drawer gets a proof of debt.

(9) **Relief from Reminders.** The businessman has not to go to his debtors so frequently to demand payment because the date of payment is fixed in the bill of exchange.

(10) **Easy of Plan**. With the help of bill of exchange he can know the future date of receiving money and thus he can plan for future.

**Kinds of Bills of Exchange**

Following are the kinds of bills of exchange :

(1) **Trade Bills**. Those bills that are written because of business transactions are called trade bills. If these bills are not paid in time the drawer can get payment through court

(2) **Accommodation Bills** Those bills that the businessman draws for mutual help are called Accommodation Bills These bills are not enforceable at law.

Following are the *differences* between a trade bill and an accommodation bill :

| *Trade Bill* | *Accommodation Bill* |
|---|---|
| (1) This bill is drawn for business transaction. | (1) This bill is drawn for mutual help for a temporary period. |
| (2) This is drawn for a consideration. | (2) This is drawn without consideration. |
| (3) This is a proof of debt. | (3) This is drawn for each others financial help. |
| (4) If it is discounted with the bank the proceeds remain with the bank. | (4) The proceeds of this bill are shared between the drawer and drawee in an agreed ratio. |
| (5) The amount of this bill can be recovered through court. | (5) The amount of this bill cannot be recovered through court. |

**Promissory Note**—Following is the definition of a Promissory Note according to Indian Negotiable Instruments Act.

"A Promissory Note is an instrument in writing (not being a Bank Note or Currency Note) containing an unconditional undertaking signed by the maker to pay a certain sum or money only to or to the order of a certain person or to the bearer of the instrument."

On the basis of the above definition following are the characteristics of a promissory note :

(1) It should be in writing.

(2) Its drawer makes a promise to make payment.

(3) This promise is to make payment of a certain sum.

(4) This is unconditional.

(5) Its payment is to be received by the person whose name is given in it or to the holder of this document.

**Parties to a Promissory Note.** There are two parties to a Promissory Note :

(1) **Maker**—He is the person who promises to make payment.

(2) **Payee**—He is the person who is entitled to get payment of the amount written in the promissory note.

**Hundi**. Hundis are in common use in our country since long. It is an Indian bill of exchange. It is written in indigenous language or some regional language. There are two kinds of Hundis :

(1) **Darshani**—It is payable on demand.

(2) **Muddati**—It is payable after a certain period.

With regard to Negotiable Instruments following terms should also be clarified :

**Holder-in-Due-Course**

Holder-in-due-course is that person who holds the document after fulfilling the following conditions :

(*a*) **In Good Faith**—When he accepts the document with the firm belief that the giver of the document is the true owner.

(*b*) **For Value**—When he accepts the discount paying some value for the same.

(*c*) **Before due date**—When he receives the instrument before the due date.

(*d*) **In proper form**—When he sees that the instrument is properly written and there are no errors in it.

When a person receives a negotiable instrument after fulfilling the above conditions his title will be good although the title of the endorser may not be good. For example, Sunil Kumar steals a bill from somewhere and gives it to Anil Kumar. Anil Kumar does not know anything about the theft and he accepts this document after fulfilling these conditions. In this case the title of Anil Kumar will be good although the title of Sunil Kumar is bad. Hence the title of holder-in-due course is always good.

**Holder-for-value**—He is a holder who does not receive the instrument for value. For example, Rajender Kumar sold goods to Harish Kumar and receives from him a bill of exchange. He donates this bill to Arya School. This school cannot be holder-in-due-course because it has not accepted the same without making any payment.

**Difference between Holder-in-due-course and Holder-for-value**

| *Point of difference* | *Holder-in-due course* | *Holder-for-value* |
|---|---|---|
| (1) For value | Holder-in-due-course receives an instrument for value | He holds the instrument without any payment of value |
| (2) Title | His title can be better than that of the endorser | His title cannot be better than that of the endorser |
| (3) Right to sue | Holder-in-due-course can go to a court of law | He cannot go to a court of law against the endorser |

**Due Date or Date of Maturity of a Promissory Note or a Bill**

Due date of a promissory note or a bill of exchange is that date on which it is due to be paid. From this point of view these documents can be divided into two parts :

(*a*) **Payable on Demand**—They are to be paid on and when presented for payment.

(*b*) **Payable after a fixed period.** They are payable after a fixed period. Three days of grace are added for determining their date of maturity.

Following points should be kept in mind in this connection.

(*i*) If a bill falls due in those months in which there are, no 29th, 30th and 31st dates it will be payable on the last date of month. For example a bill was drawn on 30th January, 1971 for one month. It will become due on 28th Feb.+3 days grace, *i e*., on 3rd March, 1971 because there is no 30th day in February.

(*ii*) Month means calendar month.

(*iii*) Bills drawn on 30th August or 31st August, 1970 for 3 months will become due on 3rd Sept. 1970.

(*iv*) If a bill becomes due after a few days of its acceptance, while calculating the date of maturity that day is not taken into account on which it was accepted and if a bill is due to be paid after a few days of some incidence, that day will not be taken into consideration on which the incidence took place.

(*v*) If the day of payment is a public holiday it becomes due one day earlier.

**Entries relating to Bills**

**Entries in the books of the drawer**—One person draws a bill of

exchange and the other accepts it. A bill of exchange is a Bill Receivable (B/R) for the drawer and a Bill payable (B/P) for the drawee. When a person receives a bill he debits the Bills Receivable A/c (B/R A/c) and the following entry is passed :

| | | |
|---|---|---|
| Bills Receivable A/c | Dr. | (Real A/c—Comes in) |
| To Accepter's Personal A/c | | (Personal A/c —Giver) |
| (For B.R. received) | | |

The drawee makes payment on the date of maturity. The drawer receives cash and gives back the bill. Thus Cash A/c is debited and Bills Receivable A/c is credited :

| | | |
|---|---|---|
| Cash A/c | Dr. | (Real A/c—Comes in) |
| To Bills receivable A/c | | (Real A/c—Goes out) |
| (For payment of B. R. received) | | |

**Entries in the Books of the Acceptor**

A Bill of exchange is a bill payable for the acceptor. When he accepts it he debits the Drawer's Personal A/c and credits the Bills Payable A/c :

| | | |
|---|---|---|
| Drawer's Personal A/c | Dr. | (Personal A/c—Receiver) |
| To Bills Payable A/c | | (Real A/c—Goes out) |
| (For acceptance given) | | |

When the acceptor makes payment on the date of maturity he debits the Bills Payable A/c and credits the Cash A/c—

| | | | |
|---|---|---|---|
| Bills Payable A/c | Dr. | (Real A/c | —Comes in) |
| To Cash A/c | | (Real A/c | —Goes out) |
| (For payment of the bill made) | | | |

**Illustration 18-1**

Satya Prakash sold to Shiv Kumar goods valued at Rs. 1,000 and drew upon him at 3 months for the amount. Shiv Kumar accepted the draft on presentation The bill was presented for payment on maturity and honoured. Make entries in the books of both the parties.

ENTRIES IN THE BOOKS OF SATYA PRAKASH

| | | | Rs. | Rs. |
|---|---|---|---|---|
| Shiv Kumar<br>To Sales A/c<br>(For goods sold to him on credit) | Dr | | 1,000 | 1,000 |
| Bills Receivable A/c<br>To Shiv Kumar<br>(For B.R. received from him) | Dr. | | 1,000 | 1,000 |
| Cash A/c<br>To Bills Receivable A/c<br>(For payment of the bill received) | Dr. | | 1,000 | 1,000 |

ENTRIES IN THE BOOKS OF SHIV KUMAR

| | | | Rs. | Rs. |
|---|---|---|---|---|
| Purchases A/c<br>To Satya Prakash<br>(For goods purchased from him on credit) | Dr. | | 1,000 | 1,000 |
| Satya Prakash<br>To Bills Payable A/c<br>(For acceptance given) | Dr. | | 1,000 | 1,000 |
| Bills Payable A/c<br>To Cash A/c<br>(For payment of the bill made) | Dr. | | 1,000 | 1,000 |

**Different Uses of a Bill of Exchange**

A holder of a bill can use it in the following ways :

(1) **Retaining the bill till the date of maturity**—He can retain the bill till the date of maturity and get its payment on that date.

(2) **Discounting a bill**—If he needs money immediately he can get it discounted with the bank.

(3) **Endorsement of a Bill**—He can endorse it to a creditor.

(4) **Sending a Bill for Collection**—He can send his bills to the bank for collection. The bank charges some commission for the same.

**Discounting of Bill**

If the drawer does not want to keep the bill with him till the date of maturity he can get it discounted with the bank. The bank pays some lesser amount. It is a gain to the bank and loss to the drawer. He will debit Cash A/c and Discount A/c and Credit Bills Receivable A/c :

| | | |
|---|---|---|
| Cash A/c | Dr. | (Real A/c—Comes in) |
| Discount A/c | Dr. | (Nominal A/c—Loss) |
| To Bills Receivable A/c | | (Real A/c—Goes out) |
| (For B.R. discounted) | | |

**Endorsement of a Bill**

The drawer can endorse the bill in favour of his creditor also. For example, Narender Kumar has to make payment to Surender Kumar. But he has no cash with him. Narender Kumar can endorse his B/R in favour of Surender Kumar and the following entry will be passed :

Creditor's Personal A/c Dr. (Personal A/c —Receiver)
To Bills Receivable A/c (Real A/c —Goes out)
(For B.R. endorsed to creditor)

**Sending the Bill to Bank For Collection**

To avoid difficulties of collection of bills the businessman sends his bills to the bank for collection. Following entry is passed :

Bank A/c for the collection of Bills A/c Dr. (Receiver)
To Bills Receivable A/c (Goes out)
(For B.R. sent to Bank for collection)

Here the Bank A/c has not been debited because the bank cannot credit his customer's A/c unless the amount of the bill is realised. Thus according to double entry system when the bank does not credit you, it will not debit also.

When the bank sends notice of realisation the following entry is passed :

Bank A/c Dr.
To Bank A/c for the collection of the Bills
(For intimation of collection received)

Bank A/c for collection of the Bills is opened for memory sake only and its balance shows the number of bills sent to the bank up to a particular date. This account is credited on realisation of bills. When an account is once debited and then credited the balance is nil. The net result is :

Bank A/c Dr.
To Bills Receivable A/c

**Note.** The acceptor is not affected with these different uses of bill because he has to make payment in all cases only once. Drawer, or creditor, or bank or any one of them will go to the drawee for payment.

**Illustration 18-2**

A bill for Rs. 5,000 is drawn by Virendra on Mahendra and accepted by Mahendra payable at his bank. Show what entries would be passed in the books of Virendra under each of the following circumstances :

(*a*) If he retained the bill till the due date and then realised it on maturity.

(*b*) If he discounted it with his bank for Rs. 4,950 ;

(*c*) If he endorsed it over to his creditor Anil Kumar Gupta in settlement of a debt ;

(*d*) If he sent it to his banker for collection.

**Solution**

JOURNAL OF ANIL KUMAR

| Date | Particulars | | L.F. | Dr. Amount | Cr. Amount |
|---|---|---|---|---|---|
| | | | | Rs | Rs. |
| | Bills Receivable A/c<br>To Sunil Kumar<br>(For Bill received from Sunil Kumar) | Dr. | | 1,000 | 1,000 |
| | Santosh Kumar<br>To Bills Receivable A/c<br>(For bill endorsed to him) | Dr. | | 1,000 | 1,000 |

Anil Kumar will not pass any entry for getting payment because the bill has been endorsed to Santosh Kumar.

JOURNAL OF SUNIL KUMAR

| Date | Particulars | | L.F. | Dr. Amount | Cr. Amount |
|---|---|---|---|---|---|
| | | | | Rs. | Rs. |
| | Anil Kumar<br>To Bills Payable A/c<br>(For acceptance given to him) | Dr. | | 1,000 | 1,000 |
| | Bills Payable A/c<br>To Cash A/c<br>(For Payment of the Bill made) | Dr. | | 1,000 | 1,000 |

JOURNAL OF SANTOSH KUMAR

| Date | Particulars | | L.F. | Dr. Amount | Cr. Amount |
|---|---|---|---|---|---|
| | | | | Rs. | Rs. |
| | Bills Receivable A/c<br>To Anil Kumar<br>(For the acceptance of Sunil Kumar received from Anil Kumar) | Dr. | | 1,000 | 1,000 |
| | Cash A/c<br>To Bills Receivable A/c<br>(For the amount of Sunil's acceptance received) | Dr. | | 1,000 | 1,000 |

**Dishonour of Bills of Exchange**

It is not always necessary that the acceptor makes payment of the bill in time. When the acceptor does not make payment, the bill is said to be dishonoured. In case of dishonour following entries are passed :

(1) **When the drawer retains the bill**—When the bill is with the drawer till the date of maturity and the acceptor does not make payment in time the entry will be :

Acceptor's Personal A/c Dr. (Made a debtor)
To Bills Receivable A/c (Goes out)
(For Bill dishonoured on due date)

On the dishonour of bill the acceptor again becomes debtor, thus his account is debited.

(2) **Dishonour after discounting**—Following entry will be passed :

Acceptor's Personal A/c Dr.
To Banks A/c
(For Bill dishonoured on due date)

Acceptor's A/c is debited and Bank A/c credited because after discounting the bank becomes the creditor.

(3) **Dishonour after endorsement**—When the drawer endorses it in favour of his creditor, following entry will be passed in case of dishonour—

Acceptor's Personal A/c Dr.
To Creditor's Personal A/c
(For Bill dishonoured after endorsement)

(4) **Dishonour after being sent to bank for collection**—following entry will be passed :

Acceptor's Personal A/c Dr.
To Bank A/c for the Collection of the Bill
(For Bill dishonoured after collection)

**Entries in the Books of the Acceptor**

In case of dishonour following entry will be passed in the books of the acceptor in all the above cases :

Bills Payable A/c Dr.
To Drawer's Personal A/c
(For acceptance dishonoured on due date)

**Note.** In case of dishonour, debit the Acceptor and credit where the bill is.

**Illustration 18-5**

Girdhari & Co. sold to Murari & Co. to the value of Rs. 200 and drew upon the latter at 3 months for the amount. Murari & Co. accepted the draft on presentation. Show what entries would be passed in the books of both the parties under each of the following circumstances if the bill is dishonoured on due date :

1. If they retained the bill till the due date and then realised it on maturity.
2. If they discounted the bill with Dena Bank for Rs. 195.
3. If they endorsed it in favour of Bhagwan & Co.
4. If they sent it to their bankers for collection.

**Solution**

| Date | Particulars | | L.F. | Dr. Amount Rs. | P. | Cr. Amount Rs. | P. |
|---|---|---|---|---|---|---|---|
| (1) | Murari & Co. To Bill Receivable A/c (For Bill dishonoured on due date) | Dr. | | 200 | — | 200 | — |
| (2) | Murari & Co. To Bank A/c (For Bill dishonoured after discounting) | Dr. | | 200 | — | 200 | — |
| (3) | Murari & Co. To Bhagwan & Co. (For Bill dishonoured after endorsement) | Dr. | | 200 | — | 200 | — |
| (4) | Murari & Co. To Bank A/c for the collection of the bill (For bill dishonoured under collection) | Dr. | | 200 | — | 200 | — |

ENTRIES IN THE BOOKS OF MURARI & CO.

| Date | Particulars | | L.F. | Dr. Amount Rs. | P. | Cr. Amount Rs. | P. |
|---|---|---|---|---|---|---|---|
| 1, 2, 3 & 4 | Bills Payable A/c To Girdhari & Co. (For Bill Payable dishonoured) | Dr. | | 200 | — | 200 | — |

**Noting Charges**

When the bill is not paid on the date of maturity then to establish and prove this fact the drawer has to follow some procedure. In big cities the Notary Public Officer certifies the fact of dishonour. This officer certifies on the back of the bill that the bill was presented and dishonoured in his presence. He charges some fee which is called Noting charges. In the books of the drawer noting charges are recorded as follows—

I. When the bill is retained by the drawer till the date of maturity.

Noting Charges A/c Dr.
To Cash A/c
(For Noting Charges paid)

Noting charges are recorded in the Acceptor's A/c as follows —

Acceptor's Personal A/c Dr.
To Noting Charges
(For Noting Charges charged from Acceptor)

No separate account is kept in the 2nd, 3rd and 4th use of the bill. But instead the noting charges are added with the amount of the bill and the fact is mentioned in the narration. For example, the amount of the bill is Rs. 1,000 and noting charges are Rs. 10, the entry will be passed for Rs. 1,010.

**Entries in the Books of the Acceptor**

The acceptor will pass following entry with regard to noting charges –

Noting Charges A/c Dr.
To Drawer's Personal A/c
(For noting charges paid by drawer on our behalf)

**Illustration 18-6**

Narendra drew upon Surendra a bill of Rs. 500 for 3 months and the bill was accepted by Surendra. The bill was dishonoured on due date. Show what entries would be passed in the books of both the parties under each of the following circumstances :

1. If he retained the bill till the due date and noting charges Rs. 10 paid by him.
2. If he discounted it with his Banker and noting charges Rs 10 paid by the Banker.
3. If he endorsed it over to his creditor Raj Kumar and noting charges Rs. 10 paid by him.
4. If he sent it to his Bankers for collection.

**Solution**

ENTRIES IN THE BOOKS OF NARENDRA

| Date | Particulars | L.F. | Dr. Amount Rs. | P. | Cr. Amount Rs. | P. |
|---|---|---|---|---|---|---|
| 1 (a) | Surendra Dr.<br>To Bills Receivable A/c<br>(For Bill dishonoured) | | 500 | — | 500 | — |
| (b) | Noting Charges A/c Dr.<br>To Cash A/c<br>(For noting charges paid) | | 10 | — | 10 | — |
| (c) | Surendra Dr.<br>To Noting Charges<br>(For noting charges charged from him) | | 10 | — | 10 | — |
| 2 | Surendra Dr.<br>To Bank<br>(For Bill dishonoured and noting charges Rs. 10 paid by Bank) | | 510 | — | 510 | — |
| 3 | Surendra Dr.<br>To Raj Kumar<br>(For bill dishonoured and noting charges Rs. 10 paid by Raj Kumar) | | 510 | — | 510 | — |
| 4 | Surendra Dr.<br>To Bank A/c for the collection of the Bill<br>(For bill dishonoured under collection) | | 500 | — | 500 | — |

No Noting Charges have been paid in the fourth case. So there will be no entry for Noting Charges.

ENTRIES IN THE BOOKS OF SURENDRA

| | | | | Rs. | P. | Rs. | P. |
|---|---|---|---|---|---|---|---|
| I, II & III | Bills Payable A/c<br>Noting Charges A/c<br>To Narendra<br>(For Bill dishonoured and noting charges Rs. 10 paid by him) | Dr.<br>Dr. | | 500<br>10 | —<br>— | 510 | — |
| IV | Bills Payable A/c<br>To Narendra<br>(For Bill dishonoured) | Dr. | | 500 | — | 500 | — |

**Note.** Same entry will be passed in the books of the Acceptor in 1st, 2nd and 3rd case. In the 4th case there are noting charges.

**Renewal of Bill**

The acceptor may not be in a position to meet the bill on the date of maturity but if he knows that he will arrange to meet the same after some time he may request the drawer to cancel this bill and draw a new one along with interest Interest is sometimes paid in cash and sometimes added with the amount of the new bill.

**Entries in Drawer's Books**

First of all the drawer will cancel the old bill

Acceptor's Personal A/c Dr.

To Bills Receivable A/c

(For Bill cancelled on Renewal)

When the amount of interest is received in cash, following entry is passed –

Cash A/c Dr.

To Interest A/c

(For interest received)

Entry for New Bill

Bills Receivable A/c Dr.

To Acceptor's Personal A/c

When interest is not received in cash, it is added to the amount of the bill. Following entry is passed –

Bills Receivable A/c Dr.

To Acceptor's Personal A/c

„ Interest A/c

(For new Bill received with interest)

**Entries in the Books of the Acceptor**

Entry for cancellation of the old bill—
Bills Payable A/c Dr.
To Drawer's Personal A/c
(For old Bill received on renewal)
When interest is paid in cash
Interest A/c Dr.
To Cash A/c
(For Interest paid to Drawer)
When new bill is accepted
Drawer Dr.
To Bills Payable A/c
(For new bill accepted)

Interest is not always paid in cash but sometimes added to the amount of bill and the following entry is passed—

Drawer's Personal A/c Dr.
Interest A/c Dr.
To Bills Payable A/c
(For new acceptance given with interest)

**Illustration 18-7**

Ramesh Kumar having accepted a bill for Rs. 1,000 is unable to meet the same. Before the due date, he requests Raj Kumar to receive Rs. 20 for interest and draw on him a new Bill for the amount for a further period of three months and cancel the old bill which is shortly to become due. Raj Kumar agrees to his proposal. Pass entries in the books of both the parties to the transactions.

**Solution**

ENTRIES IN THE BOOKS OF RAJ KUMAR

| Date | Particulars | L.F. | Dr. Amount Rs. | P. | Cr. Amount Rs. | P. |
|---|---|---|---|---|---|---|
| | Ramesh Kumar Dr.<br>To Bills Receivable A/c<br>(For cancellation of the old Bill) | | 1,000 | — | 1,000 | — |
| | Cash A/c Dr.<br>To Interest A/c<br>(For interest received) | | 20 | — | 20 | — |
| | Bills Receivable A/c Dr.<br>To Ramesh Kumar<br>(For the amount of new bill accepted by him) | | 1,000 | — | 1,000 | — |

ENTRIES IN THE BOOKS OF RAMESH KUMAR

| | | L.F. | Rs. | P. | Rs. | P. |
|---|---|---|---|---|---|---|
| Bills Payable A/c<br>To Raj Kumar<br>(For cancellation of the old Bill) | Dr. | | 1,000 | — | 1,000 | — |
| Interest A/c<br>To Cash A/c<br>(For interest paid to drawer) | Dr. | | 20 | — | 20 | — |
| Raj Kumar<br>To Bills Payable A/c<br>(For a new bill accepted) | Dr. | | 1,000 | — | 1,000 | — |

**Illustration 18-8**

Before the due date of the bill for Rs. 300—

(*a*) *X*, the acceptor approaches us and pays Rs. 100 in cash and asks us to draw on him another bill for Rs. 215, Rs. 15 being for interest, we agree to it ;

(*b*) *X* pays Rs. 25 for interest ; and we draw another bill for the full amount which he accepts ;

(*c*) *X* pays Rs. 115 and accepts another bill for Rs. 200 ;

(*d*) *X* pays Rs. 100 in cash and endorses over to us a bill of his debtor for Rs. 75 and we draw on him a fresh bill for the balance plus Rs. 20 for interest.

Pass the necessary Journal Entries to record the above transactions in our books.

**Solution**

JOURNAL ENTRIES

| Date | Particualrs | | L.F. | Dr. Amount Rs. | P. | Cr. Amount Rs. | P. |
|---|---|---|---|---|---|---|---|
| (a) | X | Dr. | | 300 | — | | |
| | To Bills Receivable A/c | | | | | 300 | — |
| | (For cancellation of the original Bill) | | | | | | |
| | Cash A/c | Dr. | | 100 | — | | |
| | To X | | | | | 100 | — |
| | (For the amount paid by X) | | | | | | |
| | X | Dr. | | 15 | — | | |
| | To Interest A/c | | | | | 15 | — |
| | (For interest charged as agreed) | | | | | | |
| | Bills Receivable A/c | Dr. | | 215 | — | | |
| | To X | | | | | 215 | — |
| | (For the amount of the new B.R. received from X) | | | | | | |
| (b) | X | Dr. | | 300 | — | | |
| | To Bills Receivable A/c | | | | | 300 | — |
| | (For cancellation of the original Bill) | | | | | | |
| | Cash A/c | Dr. | | 25 | — | | |
| | To Interest A/c | | | | | 25 | — |
| | (For the amount of interest received from X) | | | | | | |
| | Bills Receivable A/c | Dr. | | 300 | — | | — |
| | To X | | | | | 300 | |
| | (For the amount of the new bill received from X) | | | | | | |
| (c) | X | Dr. | | 300 | — | | |
| | To Bills Receivable A/c | | | | | 300 | — |
| | (For cancellation of the original Bill) | | | | | | |
| | Cash A/c | Dr. | | 115 | — | | |
| | To X | | | | | 100 | — |
| | To Interest A/c | | | | | 15 | — |
| | (For the amount received from X in part payment of the bill and for interest) | | | | | | |
| | Bills Receivable A/c | Dr. | | 200 | — | | |
| | To X | | | | | 200 | — |
| | (For the amount of the new bill received From X) | | | | | | |

| Date | Particulars | L.F. | Dr. Amount Rs. | P. | Cr. Amount Rs. | P. |
|---|---|---|---|---|---|---|
| (*d*) | *X* Dr.<br>To Bills Receivable A/c<br>(For cancellation of the original bill) | | 300 | — | 300 | — |
| | Cash A/c Dr.<br>Bills Receivable A/c "<br>To *X*<br>(For the amount of cash and a bill of third party received from *X* in part payment of the original bill) | | 100<br>75 | —<br>— | 175 | — |
| | *X* Dr.<br>To Interest<br>(For the amount of interest chargeable to him as agreed) | | 20 | — | 20 | — |
| | Bills Receivable A/c Dr.<br>To *X*<br>(For the amount of the new bill received from him) | | 145 | — | 145 | — |

**Retiring a Bill Under Rebate**

If the acceptor of the bill is in a position to make payment before the date of maturity he can do so. In such a case the drawer agrees to give some rebate. It is loss to the drawer but gain to the acceptor.

**Entry in the Books of the Drawer**

The drawer will debit the cash A/c and Rebate A/c and Credit B/R A/c.

Cash A/c — comes in Dr.
Rebate A/c — loss to drawer " (Loss)
To Bills Receivable A/c — goes out of possession of drawer
(For payment of the bill received under rebate)
Entry in the books of Acceptor
Bills Payable A/c — Acceptor receive bills payable Dr.
To Cash A/c
" Rebate A/c — [illegible] (Gain)
(For payment of the bill made under rebate)

Rebate is loss for the Drawer of Bill of Exchange and profit for the Acceptor.

**Illustration 18-9**

On 1st March, 1979 Satish sold goods to Suresh worth Rs. 1,000. On that date Suresh accepted a bill drawn upon him by Satish at 3 months for the amount.

On the 4th May the payment of the bill was made under rebate at 6% per annum.

Make Journal Entries in the books of both the parties.

**Solution**

SATISH'S JOURNAL

| Date | Particulars | | L.F. | Dr. Amount Rs. | P. | Cr. Amount Rs. | P. |
|---|---|---|---|---|---|---|---|
| 1979 Mar. 1 | Suresh | Dr. | | 1,000 | — | | |
| | To Sales A/c | | | | | 1,000 | — |
| | (For goods sold to him on credit) | | | | | | |
| ,, 1 | Bills Receivable A/c | Dr. | | 1,000 | — | | |
| | To Suresh | | | | | 1,000 | — |
| | (For bill received from him) | | | | | | |
| May 4 | Cash A/c | Dr. | | 995 | — | | |
| | Rebate | Dr. | | 5 | — | | |
| | To Bills Receivable A/c | | | | | 1,000 | — |
| | (For amount of the bill received and rebate allowed for the month) | | | | | | |

SURESH'S JOURNAL

| Date | Particulars | | L.F. | Rs. | P. | Rs. | P. |
|---|---|---|---|---|---|---|---|
| 1979 Mar. 1 | Purchases A/c | Dr. | | 1,000 | — | | |
| | To Satish | | | | | 1,000 | — |
| | (For goods purchased from him on credit) | | | | | | |
| Mar. 1 | Satish | Dr. | | 1,000 | — | | |
| | To Bills Payable A/c | | | | | 1,000 | — |
| | (For bills accepted) | | | | | | |
| May 4 | Bills Payable A/c | Dr. | | 1,000 | | | |
| | To Cash Account | | | | | 995 | — |
| | To Rebate A/c | | | | | 5 | — |
| | (For payment of the bill made under rebate) | | | | | | |

Note. **Calculation of the rebate—**

Rebate of the whole year $=\left(1{,}000\times\frac{6}{100}\right)=$ Rs. 60

,, ,, one-month = Rs. 5.

Amount Payable = 1,000—5 = Rs. 995.

**Bills Receivable Book**

Present age is the age of credit. So most of the transactions are based on credit. When a large number of bills are received in business it is thought necessary to maintain a Bills Receivable Book. A specimen of the same is given below :

| Date | From whom received | Term | Due Date | L. F. | Amount |
|---|---|---|---|---|---|
| | | | | | |

BILLS RECEIVABLE BOOK (*Detailed*)

| No. of Bills | Date of Receipt | From whom received | Drawer | Acceptor | Where Payable | Date of Bill | Term | Due Date | L.F. | Amount | How disposed off |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | |

**Bills Payable Book**

Similarly a businessman may accept so many bills in the business. He will record them in a Bills Payable book, a specimen of which is given below :

BILLS PAYABLE BOOK (*Simple*)

| Date | To whom given | Term | Due Date | L.F. | Amount |
|---|---|---|---|---|---|
| | | | | | |

BILLS PAYABLE BOOK (*Detailed*)

| No. of Bills | Date of Bill | To whom given | To whom Payable | Term of Bills | Due Date | L.F. | Amount | How disposed of |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | |

**Illustration 18-10**

| | | Rs. |
|---|---|---|
| 1979 | | |
| March 1 | Received from Surendra his acceptance at three months | 300 |
| ,, 7 | Accepted Narendra's draft at two months | 500 |
| ,, 19 | Received a Bill from Anil Kumar for 3 months | 1,500 |
| ,, 21 | Gave Raj Kumar our acceptance at one month | 500 |
| ,, 26 | Received a Bill from Santosh Gupta at six months | 1,000 |

Enter the above transactions in the Bills Receivable and Pills Payable Books of Mathura Prasad.

**Solution**

BILLS RECEIVABLE BOOK *(Detailed)*

| Serial No. | Date of Receipt | From whom received | Drawers | Acceptors | Where Pay-able | Date of Bill | Term | When due | L.F. | Amount Rs | P. | Remarks |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1979 | | | | | 1979 | | | | | | |
| 1. | Mar. 1 | Surendra | Self | Surendra | — | Mar. 1 | 3 months | June 4 | | 300 | — | Paid |
| 2. | ,, 9 | Anil Kumar | ,, | Anil Kumar | — | ,, 19 | 4 months | July 22 | | 1,500 | — | ,, |
| 3. | ,, 26 | Santosh Gupta | ,, | Santosh Gupta | — | ,, 26 | 6 months | Sept. 29 | | 1,000 | — | ,, |
| | | Bills Receivable A/c Dr. | | | | | | | | 2,800 | — | |

### *BILLS RECEIVABLE BOOK (Simple)*

| Date | From Whom Received | Term | Due Date | L.F. | Amount | |
|---|---|---|---|---|---|---|
| 1979 | | | | | | |
| Mar. 1 | Surender | 3 months | 4th June, 1979 | | 300 | — |
| „ 19 | Anil Kumar | 4 months | 22nd July, 1979 | | 1,500 | — |
| „ 26 | Santosh Gupta | 6 months | 29th Sept., 1979 | | 1,000 | — |
| | Bills Receivable A/c Dr. | | | | 2,800 | — |

### BILLS PAYABLE BOOK (*Detailed*)

| S. No. | Date of Bill | To Whom Given | Where Payable | Term | Due Date | L.F. | Amount | | Remarks |
|---|---|---|---|---|---|---|---|---|---|
| 1 | 1979 Mar. 7 | Narendra | — | 2 months | 10 th May | | 500 | — | Paid |
| 2 | „ 21 | Raj Kumar | — | 1 month | 24th April | | 500 | — | |
| | | Bills Payable A/c Cr. | — | | | | 1,000 | — | |

BILLS PAYABLE BOOK (*Simple*)

| Date | To whom given | Term | When due | L.F. | Amount Rs. | P. |
|---|---|---|---|---|---|---|
| 1979 Mar. 7 | Narendra Kumar | 2 months | May 10 | | 500 | — |
| „ 21 | Raj Kumar | 1 month | April 24 | | 500 | — |
| | Bills Payable A/c Cr. | | | | 1,000 | — |

**Posting of Bills Receivable Book**

For posting a B/R book we have to open all the personal accounts and write 'By B/R A/c' in each of them and in the B/R A/c we have to write 'To Sundries' and write the total of the B/R book. It is illustrated as below :

*Dr.* SURENDER KUMAR *Cr.*

| Date | Particulars | J.F. | Rs. | P. | Date | Particulars | J.F. | Rs. | P. |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | 1979 Mar. 19 | By Bills Receivable A/c | | 300 | — |

*Dr.* ANIL KUMAR *Cr.*

| Date | Particulars | J.F. | Rs. | P. | Date | Particulars | J.F. | Rs. | P. |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | 1979 Mar. 19 | By Bills Receivable A/c | | 1,500 | — |

*Dr.* SANTOSH KUMAR *Cr.*

| Date | Particulars | J.F. | Rs. | P. | Date | Particulars | J.F. | Rs. | P. |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | 1979 Mar. 19 | By Bills Receivable A/c | | 1,000 | — |

*Dr.* BILLS RECEIVABLE A/c *Cr.*

| Date | Particulars | J.F. | Rs. | P. | Date | Particulars | J.F. | Rs. | P. |
|---|---|---|---|---|---|---|---|---|---|
| 1979 Mar 3 | To Sundries | | 2,800 | | | | | | |

**Posting of Bills Payable Books**

First of all we should open all the personal accounts and write 'To B/R A/c' in each of them and in the B/R A/c we should write 'By Sundries' and give the total of B/R Book. It is illustrated as below—

Dr. NARENDRA KUMAR Cr

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Rs. | P. | | | | |
| 1979 Mar. 7. | To Bills Payable A/c | | 500 | — | | | | |

Dr. RAJ KUMAR Cr.

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Rs. | P. | | | | |
| 1979 Mar. 7. | To Bills Payable A/c | | 500 | — | | | | |

Dr BILLS PAYABLE ACCOUNT Cr.

| | | | | | | | Rs. | P. |
|---|---|---|---|---|---|---|---|---|
| | | | | | 1979 Mar. 31 | By Sundries | 1,000 | |

## ACCOMMODATION BILLS

When the businessmen are in need of temporary funds and when no other arrangement is possible, they may draw bills upon each other. They get them discounted with the bank and share the proceeds. On the due date they remit their shares to each other and thus the bills are met on due date. Such bills are called Accommodation bills or Kite Bills.

**Illustration 18-11**

Ramji accepts a 4 months bill for Rs. 1,000 drawn on him by Shiv Kumar for the mutual accommodation. The bill is then discounted by Shiv Kumar @ 6%. At maturity Shiv Kumar sends a Cheque to Ramji who meets the bill. Pass entries in the books of both the parties.

**Solution**

ENTRIES IN THE BOOKS OF SHIV KUMAR

| Date | Particulars | | L.F. | Dr. Amount Rs. | P. | Cr. Amount Rs. | P. |
|---|---|---|---|---|---|---|---|
| | Bills Receivable A/c<br>To Ramji<br>(For Bill received) | Dr. | | 1,000 | — | 1,000 | — |
| | Cash A/c<br>Discount A/c<br>To Bills Receivable A/c<br>(For Bill Discounted) | Dr.<br>Dr. | | 980<br>20 | —<br>— | 1,000 | — |
| | Ramji<br>To Cash A/c<br>(For cash sent to Ramji) | Dr. | | 1,000 | — | 1,000 | — |

ENTRIES IN THE BOOKS OF RAMJI

| Date | Particulars | | L.F. | Dr. Amount Rs. | P. | Cr. Amount Rs. | P. |
|---|---|---|---|---|---|---|---|
| | Shiv Kumar | Dr. | | 1,000 | — | | |
| | To Bills Payable A/c | | | | | 1,000 | — |
| | (For acceptance given) | | | | | | |
| | Cash A/c | Dr. | | 1,0 0 | — | | |
| | To Shiv Kumar | | | | | 1,000 | — |
| | (For cash received) | | | | | | |
| | Bills Payable A/c | Dr. | | 1,000 | — | | |
| | To Cash A/c | | | | | 1,000 | — |
| | (For payment of the bill made) | | | | | | |

**Illustration 18-12**

On 15th April, 1981 Harish Kumar and Gian Kumar draw on one another B/E at 2 months for Rs. 1,200 for their mutual accommodation. They discount each other's bills at the rate of 5 per cent and at maturity each party honours his own acceptance. Pass entries in the books of both the parties.

**Solution**

HARISH KUMAR'S JOURNAL

| Date | Particulars | | L.F. | Dr. Amount Rs. | P. | Cr. Amount Rs. | P. |
|---|---|---|---|---|---|---|---|
| 1981 Apl.15 | Bills Receivable A/c | Dr. | | 1,200 | — | | |
| | To Gian Kumar | | | | | 1,200 | — |
| | (For bill received) | | | | | | |
| " " | Gian Kumar | Dr. | | 1,200 | — | | |
| | To Bills Payable A/c | | | | | 1,200 | — |
| | (For acceptance given) | | | | | | |
| " " | Cash A/c | Dr. | | 1,190 | — | | |
| | Discount A/c | " | | 10 | — | | |
| | To Bills Receivable | | | | | 1,200 | — |
| | (For bill discounted) | | | | | | |
| June18 | Bills Payable A/c | Dr. | | 1,200 | — | | |
| | To Cash A/c | | | | | 1,200 | — |
| | (For payment of the bill made) | | | | | | |

GIAN KUMAR'S JOURNAL

| Date | Particulars | | L.F. | Dr. Amount Rs. | Dr. Amount P. | Cr. Amount Rs. | Cr. Amount P. |
|---|---|---|---|---|---|---|---|
| 1981 April 15 | Bills Receivable A/c<br>To Harish Kumar<br>(For Bills received) | Dr. | | 1,200 | — | 1,200 | — |
| " " | Harish Kumar<br>To Bills Payable A/c<br>(For acceptance given) | Dr. | | 1,200 | — | 1,200 | — |
| " " | Cash A/c<br>Discount A/c<br>To Bills Receivable A/c<br>(For Bills discounted) | Dr.<br>" | | 1,190<br>10 | —<br>— | 1 ?00 | — |
| June 18 | Bills Payable A/c<br>To Cash A/c<br>(For payment of the Bill made) | Dr | | 1,200 | — | 1,200 | — |

**Note.** Calculation of discount :—

Discount of the whole year $\left(1{,}200 \times \frac{5}{100}\right)$ =Rs. 60

Discount for 2 months =Rs. 10

**Illustration 18-13**

For the mutual accommodation of *S* and *R*, *S*, draws a Bill of Exchange on *R* for Rs. 7,500. *R* accepts the bill and returns it to *S*, *S* discoun*s the same with his bankers and receives Rs. 7,320. The proceeds are shared between *S* and *R* in proportion of 2/3rds and 1/3rd respectively. On the due date *S* remits *R* his proportion of money who meets the bill.

Pass necessary Journal entries in the books of *S* and *R* to record the above transactions.

**Solution**

JOURNAL ENTRIES IN THE BOOKS OF *S*

| Date | Particulars | L.F. | Dr. Amount Rs. | P. | Cr. Amount Rs. | P. |
|---|---|---|---|---|---|---|
| | Bills Receivable Account Dr. | | 7,500 | — | | |
| | To *R* | | | | 7,500 | — |
| | (For the amount of bill accepted by *R*) | | | | | |
| | Cash A/c Dr. | | 7,320 | — | | |
| | Discount A/c ,, | | 180 | — | | |
| | To Bills Receivable A/c | | | | 7,500 | — |
| | (For the amount received on discounting the above bill) | | | | | |
| | *R* Dr. | | 2,500 | — | | |
| | To Cash Account | | | | 2,440 | — |
| | ,, Discount Account | | | | 60 | — |
| | (For remittance of ⅓rd of the proceeds to *R* · ⅓rd discount being charged to him) | | | | | |
| | *R* Dr. | | 5,000 | — | | |
| | To Cash Account | | | | 5,000 | — |
| | (For the Balance paid to *R* in settlement of his account) | | | | | |

ENTRIES IN THE BOOKS OF *R*

| Date | Particulars | | L.F. | Dr. Amount Rs. | P. | Cr. Amount Rs. | P. |
|---|---|---|---|---|---|---|---|
| | *S* | Dr. | | 7,500 | — | | |
| | To Bills Payable Account | | | | | 7,500 | — |
| | (For the amount of bill payable drawn by *S*) | | | | | | |
| | Cash Account | Dr. | | 2,440 | — | | |
| | Discount Account | " | | 60 | — | | |
| | To *S* | | | | | 2,500 | — |
| | (For the amount received from *S* representing ⅓rd of the proceeds of the bill and ⅓rd discount charged) | | | | | | |
| | Cash Account | Dr. | | 5,000 | — | | |
| | To *S* | | | | | 5,000 | — |
| | (For the amount of the balance of the bill payable received from *S* in settlement of his account) | | | | | | |
| | Bills Payable Account | Dr. | | 7,500 | — | | |
| | To Cash Account | | | | | 7,500 | — |
| | (For the amount paid in settlement of a bill payable accepted) | | | | | | |

**Illustration 18-14**

On 15th April, 1981, A agrees to draw on B, who is his debtor for Rs. 2,400, three bills of exchange ; No. 1 for Rs. 700 for one month ; No. 2 for Rs. 800 at two months ; and No. 3 for Rs. 900 at three months. B accepts and returns these bills to A.

A endorses on 20th April the first bill to his creditor C, in full settlement of account of Rs. 710 ; discounts on 2nd April, the second bill at his bank for Rs. 792 and retains the third till maturity.

The first bill is met at maturity. The second bill is dishonoured on the due date. Rs. 10 being paid for noting charges. A charges B Rs. 15 for interest and draws on him a fourth bill for Rs. 825 at three months. The third and fourth bills are duly honoured on the due date.

Give journal entries to record these transactions in the books of A, B and C.

**Solution**

JOURNAL ENTRIES IN THE BOOKS OF A

| 1981 | | L.F. | Rs. | P. | Rs. | P. |
|---|---|---|---|---|---|---|
| April 15 | Bills Receivable Account (No. 1) Dr. | | 700 | — | | |
| ,, ,, | Bills Receivable Account (No. 2) Dr. | | 800 | — | | |
| ,, ,, | Bills Receivable Account (No. 3) Dr. | | 900 | — | | |
| | To B | | | | 2,400 | — |
| | (For three bills received from B) | | | | | |
| ,, 20 | C Dr. | | 710 | — | | |
| | To Bills Receivable Account (No. 1) | | | | 700 | — |
| | To Discount Account | | | | 10 | — |
| | (For the endorsement of the 1st Bill to C in full settlement of an account of Rs. 710) | | | | | |
| ,, 22 | Cash Account Dr. | | 792 | — | | |
| | Discount Account Dr. | | 8 | — | | |
| | To Bills Receivable Account (No. 2) | | | | 800 | — |
| | (For cash received on discounting the 2nd Bill with Bank) | | | | | |
| June 18 | B Dr. | | 810 | — | | |
| | To Bank | | | | 810 | — |
| | (For dishonour of the 2nd Bill by B including noting charges Rs. 10) | | | | | |
| June 18 | B Dr. | | 15 | — | | |
| | To Interest Account | | | | 15 | — |
| | (For the amount of interest charged from B) | | | | | |
| June 18 | Bills Receivable Account (No. 4) Dr. | | 825 | — | | |
| | To B | | | | 825 | — |
| | (For acceptance of the 4th Bill by B including Rs. 10 as noting charges and Rs. 15 as interest) | | | | | |
| July 18 | Cash Account Dr. | | 900 | — | | |
| | To Bills Receivable Account (No. 3) | | | | 900 | — |
| | (For Cash received on maturity of the 3rd Bill) | | | | | |
| Sept. 21 | Cash Account Dr. | | 825 | — | | |
| | To Bills Receivable A/c (No. 4) | | | | 825 | — |
| | (For Cash received on maturity of the 4th Bill) | | | | | |

## JOURNAL ENTRIES IN THE BOOKS OF B

| Date | Particulars | L.F. | Rs. | P. | Rs. | P. |
|---|---|---|---|---|---|---|
| 1981 April 15 | *A* Dr. | | 2,400 | — | | |
| | To Bills Payable Account (No. 1) | | | | 700 | — |
| | To Bills Payable Account (No. 2) | | | | 800 | — |
| | To Bills Payable Account (No. 3) | | | | 900 | — |
| | (For three bills given to *A*) | | | | | |
| May 18 | Bills Payable Account (No. 1) Dr. | | 700 | — | | |
| | To Cash Account | | | | 700 | — |
| | (For payment of 1st bill made on maturity) | | | | | |
| June 18 | Bills Payable Account (No. 2) Dr. | | 800 | — | | |
| | To *A* | | | | 800 | — |
| | (For cancellation of the 2nd Bill) | | | | | |
| June 18 | Noting charges Account Dr. | | 10 | — | | |
| | Interest Account " | | 15 | — | | |
| | To *A* | | | | 25 | — |
| | (For amount of Noting charges and interest payable to *A*) | | | | | |
| June 18 | *A* Dr | | 825 | — | | |
| | To Bills Payable Account (No. 4) | | | | 825 | — |
| | (For the 4th bill given to *A*). | | | | | |
| July 15 | Bills Payable Account (No. 3) Dr. | | 900 | — | | |
| | To Cash Account | | | | 900 | — |
| | (For payment of Cash on maturity of the 3rd Bill) | | | | | |
| Sep. 21 | Bills Payable Account (No. 4) Dr. | | 825 | — | | |
| | To Cash Account | | | | 825 | — |
| | (For payment of Cash on maturity of the 4th bill) | | | | | |

## JOURNAL ENTRIES IN THE BOOKS OF *C*

| Date | Particulars | | Rs. | P. | Rs. | P. |
|---|---|---|---|---|---|---|
| 1981 April 20 | Bills Receivable Account Dr. | | 710 | — | | |
| | Discount Account " | | 10 | — | | |
| | To *A* | | | | 710 | — |
| | (For receipt of a bill of Rs. 700 from *A* in full settlement of my account of Rs. 710) | | | | | |
| May 18 | Cash Account Dr. | | 700 | — | | |
| | To Bills Receivable Account | | | | 700 | — |
| | (For Cash received on maturity of the Bill) | | | | | |

**Bankruptcy of the Acceptor**

Sometimes the acceptor becomes bankrupt before the date of maturity and is not in a position to make full payment.

**Entries in the Books of the Drawer**

The drawer debits the Cash A/c with the amount which he receives. He debits the Bad Debts A/c with the amount which he does not receive. The Acceptor's A/c is credited. Thus the following entry is passed :

| | | |
|---|---|---|
| Cash A/c | Dr. | (Amount received) |
| Bad Debts A/c | Dr. | (Amount unpaid) |
| To Acceptor's Personal A/c | | (Full Amo unt) |

**Entries in the Books of the Acceptor**

| | |
|---|---|
| Drawer's Personal A/c | Dr. |
| To Cash A/c | |
| To amount not paid | |

**Illustration 18-15**

*X* draws a bill for Rs. 1,500 and *Y* accepts it for the mutual accommodation of both to the extent of *X* 2/3rds and *Y* 1/3rd. *X* discounts the same for Rs. 1,410 and remits 1/3rd of the proceeds to *Y*. Before, the due date *Y* draws another bill for Rs. 2,100 on *X* to provide funds to meet the first bill. The second bili is discounted for Rs. 2,040 and with this amount the first bill is met and Rs. 360 are remitted to *X*. Before the due date of the second bill *X* becomes insolvent and *Y* receives a dividend of 50 P. in the rupee in full settlement.

Give Journal Entries to record the above transactions in the books of *X* and *Y* respectively.

**Solution**

JOURNAL ENTRIES IN THE BOOKS OF *X*

| Date | Particulars | | L.F. | Dr. Amount Rs. | P. | Cr. Amount Rs. | P. |
|---|---|---|---|---|---|---|---|
| | Bills Receivable Account | Dr. | | 1,500 | — | | |
| | To *Y* | | | | | 1,500 | — |
| | (For Bill accepted by *Y*) | | | | | | |
| | Cash Account | Dr. | | 1,410 | — | | |
| | Discount Account | ,, | | 90 | — | | |
| | To Bills Receivable Account | | | | | 1,500 | — |
| | (For cash received on discounting the above bill) | | | | | | |
| | *Y* | Dr. | | 500 | — | | |
| | To Cash Account | | | | | 470 | — |
| | To Discount Account | | | | | 30 | — |
| | (For remittance of 1/3rd of the proceeds to *Y*, 1/3rd discount being charged from him) | | | | | | |
| | *Y* | Dr. | | 2,100 | — | | |
| | To Bills Payable Account | | | | | 2,100 | — |
| | (For Bill accepted) | | | | | | |
| | Cash Account | Dr. | | 360 | — | | |
| | Discount Account | ,, | | 40 | — | | |
| | To *Y* | | | | | 400 | — |
| | (For Cosh Received from *Y*—two-thirds proceeds of the second bill minus Rs. 1,000 on account of the first bill) | | | | | | |
| | Bills Payable Account | Dr. | | 2,100 | — | | |
| | To *X* | | | | | 2,100 | — |
| | (For Dishonour of acceptance on becoming bankrupt) | | | | | | |
| | *Y* | Dr. | | 1,400 | — | | |
| | To Cash Account | | | | | 700 | — |
| | To Amount not paid Account | | | | | 700 | — |
| | (For 50 P. in the rupee paid to him) | | | | | | |

## JOURNAL ENTRIES IN THE BOOKS OF *Y*

| Date | Particulars | | L.F. | Dr. Amount Rs. | P. | Cr. Amount Rs. | P. |
|---|---|---|---|---|---|---|---|
| | X | Dr. | | 1,500 | — | | |
| | To Bills Payable Account | | | | | 1,500 | — |
| | (For Acceptance of *X*'s Bill) | | | | | | |
| | Cash Account | Dr. | | 470 | — | | |
| | Discount Account | | | 30 | — | | |
| | To X | " | | | | 500 | — |
| | (For amount received from X for 1/3rd proceeds of the bill after deducting 1/3rd discount) | | | | | | |
| | Bills Receivable Account | Dr. | | 2,100 | — | | |
| | To X | | | | | 2,100 | — |
| | (For Bill received from him) | | | | | | |
| | Cash Account | Dr. | | 2,040 | — | | |
| | Discount Account | | | 60 | — | | |
| | To Bills Receivable Account | " | | | | 2,100 | — |
| | (For amount received from the bankers on discounting the above Bill) | | | | | | |
| | Bills Payable Account | Dr. | | 1,500 | — | | |
| | To Cash Account | | | | | 1,500 | — |
| | (For first bill met) | | | | | | |
| | X | Dr. | | 400 | — | | |
| | To Cash Account | | | | | 360 | — |
| | To Discount Account | | | | | 40 | — |
| | (For 2/3rd proceeds of the second bill minus Rs. 1,000 of the first bill remitted to X) | | | | | | |
| | X | Dr. | | 2,100 | — | | |
| | To Bank Account | | | | | 2,100 | — |
| | (For amount paid on account of X's failure to meet his acceptance due to his bankruptcy) | | | | | | |
| | Cash Account | Dr. | | 700 | — | | |
| | Bad Debts Account | | | 700 | | | |
| | To X | " | | | | 1,400 | — |
| | (For amount received as final dividend of 50 P. in a rupee from X) | | | | | | |

**Note** 1. To find out the amount due from *Y*, *Y*'s A/c in *X*'s Ledger will be opened.

2. After the bill is paid discount on the balance of Rs. 600 will be Rs. 60. Therefore discount on Rs. 400 is Rs. 40.

**Solution**

Dr. *X's* ACCOUNT IN THE BOOKS OF *Y* Cr.

| Date | Particulars | L.F | Dr. Amount Rs. | P. | Date | Particulars | L.F. | Cr. Amount Rs. | P. |
|---|---|---|---|---|---|---|---|---|---|
| | To Bills Payable Account | | 1,500 | — | | By Cash A/c | | 470 | — |
| | ,, Cash A/c | | 360 | — | | ,, Discount Account | | 30 | — |
| | ,, Discount Account | | 40 | — | | ,, Bills Receivable | | 2,100 | — |
| | ,, Bank | | 2,100 | — | | ,, Cash A/c | | 700 | — |
| | | | | | | ,, Bad Debts Account | | 700 | — |
| | | | 4,000 | | | | | 4,000 | — |

**Note.** On the due date of the bill *X* becomes bankrupt and is unable to meet the bill. Therefore *Y* has to take it up and after that *X*'s as A/c shows a debit of Rs. 1,400 *Y* will receive half of the amount from *X i.e.* Rs. 700 remaining Rs. 700 will be bad debts.

**Illustration 18-16**

On 1st January, 1981 *A* draws on *B* at 3 months for Rs. 1,000 and discounts the acceptance with the bank for Rs. 990 of which he hands over Rs. 495 to *B*. On 31st March in order to provide funds to meet this bill, *B* draws on *A* for Rs. 1,100 at 3 months and discounts the acceptance with the bank for Rs. 1,090 in cash of which he gives Rs. 272 and 50 P. to *A*. On 29th June, *A* becomes insolvent and *B* has to meet both the bills. On 1st Oct. *B* receives a dividend of 75 P. in the rupee in full settlement.

Prepare *A*'s Account in *B*'s Books.

**Solution**

Dr. IN THE BOOKS OF *A* Cr.

| 1981 | | Rs. | P. | 1981 | | Rs. | P. |
|---|---|---|---|---|---|---|---|
| Jan. 1 | To Bills Payable Account | 1,000 | — | Jan. 1 | By Cash A/c | 495 | — |
| Mar. 31 | To Cash Account | 272 | 50 | ,, ,, | By Discount Account | 5 | — |
| ,, ,, | To Discount A/c | 2 | 50 | Mar. 31 | By Bills Receivable A/c | 1,100 | — |
| June 29 | To Bank Account | 1,100 | — | Oct. 1 | By Cash A/c | 581 | 25 |
| | | | | ,, ,, | By Bad Debts Account | 193 | 75 |
| | | 2,375 | — | | | 2,375 | — |

**Illustration 18-17**

On 1st May, 19... *A* drew and *B* accepted a bill at three months for Rs. 2,000. On 4th May, *A* discounted the bill for 6 per cent per annum and remitted half the proceeds to *B*. On 1st June

*B* drew and *A* accepted a bill at three months for Rs. 500. On 4th June, *B* discounted the bill at 6% per annum and remitted half the proceeds to *A*. *A* and *B* agreed to share the discount equally. At maturity, *A* met his acceptance, but *B* failed to meet his, and *A* had to pay for it. *A* then drew and *B* accepted a new bill at three months for the amount of the original bill plus Rs. 30 for interest.

On 1st November, 19... *B* became insolvent and paid to his creditors 50 Paise in the rupee.

Write up the entries in *A*'s Journal and B's Account in *A*'s Ledger.

**Solution**

**ENTRIES IN THE BOOKS OF *A***

| Date | Particulars | | Rs. | Rs. |
|---|---|---|---|---|
| 19... May 1 | Bills Receivable Account<br>To B<br>(For drawn a bill for mutual accommodation) | Dr. | 2,000 | 2,000 |
| ,, | Cash Account<br>Discount Account<br>To Bill Receivable Account<br>(For discounted the bill) | Dr.<br>Dr. | 1,970<br>30 | 2,000 |
| ,, | B<br>To Cash Account<br>To Discount Account<br>(For remitted half proceeds of the bill to B) | Dr. | 1,000 | 985<br>15 |
| June 1 | B<br>To Bills Payable Account<br>(For acceptance given to B) | Dr. | 500 | 500 |
| ,, | Cash Account<br>Discount Account<br>To B<br>(For received half proceeds of the bill from B) | Dr.<br>Dr. | 246·25<br>3·75 | 250 |
| Aug. 4 | B<br>To Bank Account<br>(For the bill dishonoured) | Dr. | 2,000 | 2,000 |
| Aug. 4 | B<br>To Interest Account<br>(For interest charged for three months) | Dr. | 30 | 30 |
| ,, 4 | Bills Payable Account<br>To B<br>(For the bill renewed) | Dr. | 2,030 | 2,030 |
| Sep. 4 | Bills Payable Account<br>To Cash Account<br>(For acceptance met) | Dr. | 500 | 500 |

| | | | | |
|---|---|---|---|---|
| Nov. 1 | B Dr. | | 2,030 | 2,030 |
| | To Bills Receivable Account<br>(For the bill treated as dishonoured on B's insolvency) | | | |
| „ „ | Cash Account Dr.<br>Bad Debts Account Dr.<br>To B<br>(For only 50 P received in the rupee and the balance written off as bad debts) | | 640<br>640 | 1,280 |

B's A/c IN A's LEDGER

| Dr. | | Rs. | | Cr. | Rs. |
|---|---|---|---|---|---|
| 19... | | | 19... | | |
| May 4 | To Cash Account | 985 | May 1 | By B/R Account | 2,000 |
| May 4 | „ Discount A/c | 15 | June 4 | „ Cash Account | 246.25 |
| June 1 | „ B/R Account | 500 | June 4 | „ Discount A/c | 3·75 |
| Sept. 4 | „ Bank Account | 2,000 | Sept. 4 | „ B/R Account | 2,030 |
| Sept. 4 | „ Interest A/c | 30 | Nov. 1 | „ Cash Account | 640 |
| Nov. 1 | „ B.R Account | 2,030 | Nov. 1 | „ Bad Debts A/c | 640 |
| | | 5,560 | | | 5,560 |

**Standard Questions**

1. Define a Bill of Exchange. What is the importance of a Bill of Exchange in the modern business world ?
2. Who is the holder in Due Course ?
3. How is the time of payment of a Bill of Exchange calculated ?
4. What are accommodation Bills ?
5. What entries should be passed on dishonour of bills ?

**Practical**

1. Pass Journal entries in the books of Texla & Co. for the following transactions :—

Jan. 4 Received a Bill Receivable dated 31 January for one month after date, duly accepted by Jay Kay & Co. for Rs. 100.

„ 6 Received S. Kumar & Co's acceptance dated 31st January for 4 months after sight, for Rs. 500.

„ 15 Accepted V. Kumar's draft dated 5th January for 3 months after sight, for Rs. 600.

„ 20 Draw on Mahesh Chandra at 30 days date, for Rs. 200.

2. Enter the following transactions in the proper books of Shree Mahavir Book Depot.

| | | | Rs. |
|---|---|---|---|
| 1980 | | | |
| Jan. | 1 | Received from Raj Kumar his own acceptance | 2,000 |
| „ | 5 | Jagdish Chandra accepted our draft | 1,000 |
| „ | 8 | Draw on Sudhir Kumar for amount due | 200 |

| | | | |
|---|---|---|---|
| Jan. | 10 | Ramesh Gupta returned our draft duly accepted | 3,000 |
| ,, | 15 | Received from Anil Kumar, a B/R | 500 |
| ,, | 18 | Received from Vijay Kumar, Satish Chandra's acceptance in his favour | 3,500 |
| ,, | 25 | We accepted Sunil Kumar's draft | 500 |
| ,, | 26 | Virendra Chopra drew on us | 600 |

3. A bill for Rs. 1,000 is drawn by Mr. Singh on Mr. Ahmed on 5th August payable six months after date. The bill is accepted by the drawee on presentation and duly met on maturity. Record these transactions in the books of both the parties.

4. On March 10, 1981, A draws on B a bill at three months for Rs. . 00 which B accepts immediately and returns to A. The bill, is honoured on the due date. Pass the necessary entries in the books of both the parties.

5. Sudershan sold goods to Rajan for Rs. 2,000. Rajan accepts two bills of Rs. 1,000 each for 3 months. Sudershan endorsed one bill to Rakesh on due date both bills are met. Pass entries in the books of Sudershan and Rajan.

6. A bill for Rs. 500 is drawn by Kishore Kumar on Ashok Kumar on 1st April 1979, payable 3 months after date. The bill is accepted by the drawee on presentation and duly met on maturity. Record these transactions in the books of both the parties.

7. A bill for Rs. 500 payable three months after date is drawn by Ahsan and Co., on Mohammed Ibrahim Khan and accepted by the latter. Show entries that would be passed in the Journal of Ahsan & Co., in each of the following cases :—

   (*a*) If they keep the bill till maturity and then receive payments of it on the due date.

   (*b*) If they discount it at their bank for Rs. 495.

   (*c*) If they endorse it to their creditor Naresh Kumar.

   (*d*) If they send it to their bankers for collections.

8. [*a*] A bill for Rs. 5,000 is drawn by *B* on *C*, and accepted by *C* payable at his bank. Show what entries would be passed in the books of *B* in each of the following circumstances ;

   (*i*) If he retained the bill till the date and then realised it on maturity.

   (*ii*) If he discounted it with his bank for Rs. 4,800.

   (*iii*) If he endorsed it over to his creditor Mr. Harish Gupta in settlement of his debt.

[*b*] State what further entries would be passed in the books of *B* in each of the circumstances given below—

(*i*) If the bill was dishonoured on the due date.

(*ii*) If Noting charges Rs. 10 were paid in cases (*i* *iii*)

9. Balram draws a B/E on Hidaytulla for Rs. 1,200 payable after three months, Hidaytulla accepts it and sends it back to Balram who discounts the same with the bank at 5% per annum. Give the necessary Journal entries to record the transactions in the books of Balram

10. Mathura owes Rs 500 to Kashi. On 1st March 1979, he sent his promissory note for the amount payable after 3 months. On 1st April, 1979 Kashi endorses the promissory note in favour of Prem to whom he owed a like amount. On due date, Mathura, paid the amount. Make Journal entries in the books of Mathura, Kashi and Prem.

11. Harish Kumar accepted on 1st September, 1979 a bill drawn on him by Rajendra Kumar for Rs. 300 for 2 months. Rajendra Kumar got this bill discounted at his bank at 5% interest. On due date the bill was met. Give the Journal entries in the books of both the parties. What further entries would be made if the bill is dishonoured and Noting charges Rs. 5 paid by the drawer.

12 *A* sells goods to *B* and draws a bill for Rs. 20,000 on *B* three months after date which *B* accepts. *A* discounts this bill with his banker at 5% per annum. *B* fails to meet this bill on maturity. *A* pays off the amount of this bill to his banker with its expenses amounting to Rs. 200. *B* gives a fresh bill, payable two months after date to *B* for Rs. 20,300 which he meet on maturity.

13. Tina draws a bill for Rs. 2,000 on Ranjita on 15th September, 1979 for three months. On maturity, Ranjita failed to honour the bill. Pass the necessary Journal Entries in the books of Tina and Ranjita.

14. On 15th June 1979, Mohan sold goods valued at Rs. 2,000, He drew a bill at 3 months for the amount and discounted the same with his bankers at Rs. 1,960 On the due date the bill was dishonoured and Mohan paid to the bank the amount due plus the noting charges of Rs. 10.

15. On 1st January, 1980 Ramesh sold goods Valued at Rs. 4,000. Ramesh draw a bill of exchange on Mahesh for Rs. 4,000, for a period of three months. Mahesh accepts it and returns to Ramesh. Ramesh then endorses it to Mukesh, who in turn endorses it to Suresh on 1st February, 1980. The bill is then discounted by Suresh on the same day with his banker at 5% per annum. On the due date the bill is dishonoured.
Pass the necessary Journal entries in the books of all the relevant parties.

16. A sells goods to B to the value of Rs. 1,450 and draws on him four months' Bill of Exchange for the amount which B accepts. A discounts the same with the bank and pays Rs. 7.25 as discounting charges. On the due date B dishonours the bill and requests A to draw a new bill payable after 4 months for the amount of the old Bill together with discounting charges plus interest at 5% per annum. A does so This new bill was duly met on maturity. Pass Journal entries in the books of both the parties.

(*Delhi Senior School Certificate Exam. 1978*)

17. A bill receivable for Rs. 1,000 which had been discounted from the bank at Rs. 970, is dishonoured and the Bank paid Rs. 15 as Noting charges. The Debtor Mohan accepted a fresh bill in lieu of the dishonoured bill for Rs. 1,015 and paid Rs. 35 as cash towards interest. Give journal entries to record the above in the books of the drawer.

(*S.S.C. Delhi 1980 Comptt* )

18. Vishwa Nath sells goods to Kirti Azad to the value of Rs. 1,400 and draws a four months B/E for the amount which Kirti Azad accepts. Vishwa Nath discounts the same with the bank and pays Rs. 7 as discounting charges. On maturity Kirti Azad fails to honour the bill and requests Vishwa Nath to draw a new bill payable after four months for the original amount together with discounting charges plus interest at 3% per annum. Vishwa Nath does so.

Make the necessary Journal entries in the books of Kirti Azad.

19. Merchant & Co. Calcutta sold to Rama Bros. of Delhi goods valued at Rs. 500. and drew a bill upon them at three months for the amount. Rama Bros. accepted the draft on presentation Merchant & Co. then endorsed the bill in favour of Smith & Co. The bill was dishonoured on maturity, and Smith & Co. paid Rs. 4 as Noting charges. Make entries in the books of all the three parties concerned to record the above transactions.

20. Mr. Kishan Chand received from one of his customers a bill at three months for Rs. 8,000. He discounted it on the same day at 10 per cent per annum with his bankers. On the date of maturity, the bill was dishonoured. He incurred Noting Charges of Rs. 50. However, the customer paid him Rs. 2,000 in cash on the date of maturity and accepted a fresh bill for the amount due from him. Mr. Kishan Chand gave the second bill to Mr. Khem Chand one of his creditors.

**Questions for Revision**

21. Deepak draws a bill for Rs. 2,000 on Gopal on 15th September 1979, for three months. On maturity Gopal failed to honour the bill. Pass the necessary journal entries in the books of

Deepak (*i*) if he had retained the bill with him till maturity (*ii*) if he had endorsed the bill to Kumar on 14th October ; and (*iii*) if he had discounted the bill with his bank at 5% per annum on 15th September, 1979.

**22.** Record the following in the journal :

(*i*, Ram's acceptance for Rs. 20,0C0 renewed for three months, plus interest at 5% per annum.

(*ii*) Shyam's acceptance for Rs. 4,500, due this day, returued dishonoured Noting charges Rs. 10.

[*Delhi Senior School Certificate Exam. 1978* (*C*)]

**23.** On 1st March 1979 *X* sells goods worth Rs. 4,000 to *Y* and draws a bill for the amount due on the purchaser payable after two months. The same is accepted by *Y*. On 4th April 1979, *X* endorsed the Bill to *Z* who presented it to *Y* for payment on the due date, but it was dishonoured. *Z* paid Rs. 20 as noting Charges.

Pass necessary Journal entries in the books of *X*, *Y* and *Z*.

**24.** On 1st January 1980 Sohan sold goods worth Rs. 5,000 to Mohan On the same date, Sohan drew on Mohan a bill for Rs. 5,000 payable three months after date. The bill was duly accepted by Mohan and returned to Sohan. On 4th February, 1980 Sohan got the bill discounted at 9% p.a. On the due date the bill was dishonoured and the bank had to pay Rs. 20 as Noting Charges.

Journalise the above transactions in the books of both the parties.

**25.** On 1st August 1979 *X* sold goods to *Y* of the value of Rs. 500 and drew upon him a bill at three months for the amount. *Y* accepted the draft and returned it to *X*. On due date, *Y* expressed his inability to meet the bill and offered to pay Rs. 300 in cash and to accept a new bill for the balance plus interest at 6% per annum for three months. *X* agreed to the proposal. On maturity, the bill was duly met by *Y*.

Pass Journal entries in the books of *X* and *Y*.

**26.** On 1st March, *B* buys goods from *C* valued Rs. 9,000. Insted of paying Cash, he agrees to give *C* a bill of exchange at four months, the amount of the bill to include interest 6% p.a. On the due date *B* is able to pay only Rs. 7,390 in Cash, and he arranges with *C* for the retirement of the bill in consideration of this payment and a substituted bill at four months for the balance plus interest at 6% per annum. Pass Journal entries in the books of *B* (*Ignore paise.*)

**27.** On 1st July 1979, *M* owes to *S* Rs. 1,200 and accepts three bills of Rs. 400 each due respectively in one, two and four months. The first bill is retained by *S* and is duly met. The second bill was discounted (charges being Rs. 4) and is met in due course. The third is also discounted (charges being Rs. 4) and is dishonoured. The Notarial charges being Rs. 10

New arrangements are duly made where by *M* pays Cash Rs. 100 and accepts a bill due in the two months for the balance of the amount with interest at 6% p a. The bill is retained. On the due date, the same is dishonoured. Notarial charges being Rs. 7. *M* shortly is made insolvent and 25% in a rupee was received from his estate.

Pass entries in the book of *S*.

28. Ajay the acceptor of Rs 6,000 trade bill maturing on the 31st March 1979 requests Vijay, the holder, to renew the bill for 3 months. Vijay, however, partially agrees thereto on an immediate payment of Rs 2,000 plus interest at 15% p.a. in Cash. Ajay acts accordingly and accepts the renewed bill for the residue on 31st March.

On June 1, 1979, Ajay is adjudicated insolvent and the drawer finally recovers on July 1, 1979 a dividend of 40 paise in the rupee from the insolvents estate.

Journalise in the books of both the parties.

29. Lal Chand who was a debtor of Sita Ram, accepted two bills for equal amount to clear his debt of Rs. 4,500. The first bill was for two months and the other for three months. Sita Ram endorsed the first bill to Matadin in order to settle his account with him. The second bill was discounted at the Bank for Rs. 2,200. The first bill was honoured on the due date but the second could not be paid on the due date. The Bank paid Rs. 30 as Noting Charges for it. Sita Ram paid the amount of the bill to the Bank. Lal Chand agreed to pay interest @ 6% per annum. He accepted a new bill for the amount and duration of the second bill. He paid Noting Charges and interest in cash. Journalise the transactions in the books of Sita Ram, Lal Chand and Matadin.

30. Q drew a bill of exchange on P for Rs. 4,000 on 1st May, 1979, for 3 months. P returned the bill to Q after accepting it. Q discounted the bill at his bank for Rs. 3,900. Just before the due date P approached Q for renewal of the bill. Q agreed on conditon that Rs. 1,000 plus interest on the balance at 6% per annum for 3 months be paid in cash immediately and new bill for 3 months be drawn for the remaining balance. These conditions were carried through. On 7th November, 1979, P became insolvent and his estate paid 40 paise in a rupee in full settlement.

Give the Journal entries in the books of P and Q.

31. On 1st January. 1980 *A* owes *B* Rs 6,000 for which *B* receives two acceptances from *A*, one for Rs. 2,000 payable in two months the other for Rs. 4,000 payable in four months, in each case from 1st January. *B* duly discounts both these acceptances with his Bankers on 3rd January at 6% per annum. Before the 1st bill became due. *A* requested *B* to assist him in taking up by providing him with Rs. 1,000 cash and drawing a third bill on *A* for that amount at three months from the due date of the 1st

bill plus interest at 6% per annum; *B* agrees to this proposal and advances the money, discounting the bill with his bankers at 4% per annum. A week before the second bill for Rs. 4,000 falls due, *A* again asks *B* to assist him to the extent of Rs. 2,500. *B* however, is not in a position to do this, and he arranges with *A* to draw on him (*B*) two bills for Rs. 1,110 and Rs. 1,420 at two months and three months respectively from the due date of the bill of Rs. 4,000. *B* accepts these two bills and remits them to *A*, who discounts them with his bankers at 5% per annum and assisted by the proceeds, duly meets the Rs. 4,000 bill. *B* also meet his two bills on maturity.

On 7th June *A* becomes bankrupt, leaving his third bill unpaid On 1st October 1980, a first and final dividend of 50 paise in the rupee was received from his estate. Pass Journal Entries and prepare *A's* A/c in *B*'s Books.

32. On 1st January 1977 *X* drew on *Y* three bills of exchange in full settlement of claims. The first for Rs. 1,400 at one month the second for Rs. 1,600 at two months and the third for Rs. 1,800 at three months. The bills were duly accepted by *Y*

The first bill was endorsed by *X* to his creditor *Z* on 3rd January, 1977; the second was discounted on 15th January for Rs. 1,590 and the third bill was sent to bank for collection on 4th February. All the bills were duly met on maturity except the second bill which was dishonoured, Noting Charges being Rs. 24. *X* charged *Y* Rs. 30 for interest and drew on him a fourth bill for two months for the amount due. The fourth bill was duly met on maturity.

Pass Journal entries in one books of *X* and *Y*.

33. On 1st January 1978 *A* drew upon *B* for goods sold a bill at three months for Rs. 1,000. *A* discounted the bill with his bankers, who charged Rs. 15 for discount. On due date the bill was dishonoured and the bank paid Rs. 10 as Noting Charges. On 10th April *B* accepted a new bill for Rs. 1,025 payable after three months. On 1st July, before the bill matured, *B* was declared insolvent and a first and final dividend of 25 P. in the rupee was received from his private estate on 31st July, 1978.

Make the Journal entries in *A*'s Books and show how *B*'s account will appear in *A*'s Ledger.

[*Delhi Senior School Certificate Exam. 1979* (*C*)]

**Accommodation Bills**

34. On 18th July, 19...Amar Nath for the mutual and temporary accommodation of himself and Banarsi Dass draws upon the latter a bill of exchange at three months for Rs. 2,000. Amar Nath immediately discounts the bill at the Bank at 6% per annum and hands half the proceeds to Banarsi Dass. On maturity, Amar Nath pays Rs. 1,000 to Banarsi Dass who finds the remaining Rs. 1,000 himself, and the bill is duly met.

Make entries in the books of both the parties.

**35.** For the mutual accommodation of *P* and *Q*, *P* draws a bill on *Q* for Rs. 1,500. *Q* accepts the bill and returns to *P*. *P* discounts the same with his bankers and receives Rs 1,464. Proceeds are shared between *P* and *Q* in proportion of two thirds and one third respectively. On the due date *P* remits his proportion to *Q* who fails to meet the bill, and as a result *P* has to meet it. *Q* then gives a fresh acceptance for the amount due to *P*, plus interest Rs. 10, meets his second acceptance on due date.

Pass the necessary Journal entries in the books of *P* only.

**36.** On 1st January, P. Sood draws a bill on B. Khosla at four months for Rs. 10,000 and B. Khosla draws on P. Sood for a similar amount in return. Both bills are accepted and discounted respectively at 5 per cent. At maturity Sood meets his own acceptance, but Khosla's acceptance is dishonoured with the result that Sood, the drawer is called upon to take it up. Bank charges and expenses on the dishonoured bill are of Rs. 10 Khosla then accepts a new bill at 3 months for the amount due by him plus interest at 5% per annum, which is duly met at maturity. Show entries in the books of both the parties.

**37.** *A* for the mutual and temporary accommodation of himself and *B*, draws upon *B* a Bill of Exchange at three months for Rs. 600 dated 1st January, 1980 *A* discounts this bill immediately at his bankers, the rate of discounts being 5% per annum and hands half the proceeds. *B* for a similar purpose and at the same time, draws a bill at three months on *A* for Rs. 300. This he discount at his bankers at 5% per annum and hands half the proceeds to *A*, *B* becomes bankrupt on 31st March, 1980 and a first and final dividend of 25 P. in the rupee is paid from his estate on 30th June, 1980. *A* met both the bills.

Pass necessary Journal entries in the books of *A* and *B*. Calculate discount in months and make proportion between *A* and *B*.

(*Delhi Board*)

**38.** *X* for the mutual and temporary accommodation of himself and *Y*, draws upon the latter a Bill of Exchange at 3 months for Rs. 1,800 dated 1st January 1979. *X* discounts the bill immediately at his bank, the rate of discount being 6% and hands half the proceeds to *Y*. *Y* for a similar purpose and the same time draws a bill at three months on *X* for Rs. 900. This he discounts at his bank at 6% and hands half the proceeds to *X*. *Y* becomes insolvent on 31st March, 1979, and a first and final divided of 25 P. in the rupee was paid out of his estate on June 30. 1979.

Write *Y*'s account in *X*'s books assuming in each case that one half of the charge for discounting the bill is chargeable to *X* and one half to *Y*.

39. Bose and Mitra were in need of Funds. On 1st May, 19... Bose accepted Mitra's draft for Rs. 6,000 at three months. Mitra got it discounted at 6% and remitted one third of the proceeds to Bose. On the due date Mitra was not able to send the amount. Instead, he accepted Bose's bill for Rs. 4,500 at two months. Bose got it discounted for Rs. 4,480. Out of this Rs. 980 were sent to Mitra. Early in October 19... Mitra became insolvent. His estate paid 40%. Give Journal entries in the books of both the parties and give Mitra's Account in the books of Bose.

40. On 1st May, *A* drew and *B* accepted a bill at three months for Rs. 1,000. On 4th May, *A* discounted the bill at his bank for 6 per cent per annum and remitted half of proceeds by cheque to *B*. On 1st June, *B* drew and *A* accepted a bill at three months for Rs. 600. On 4th June, *B* discounted the bill with his bank at 6% per annum and remitted half the proceeds to *A*. *A* and *B* agreed to share the discount equally. At maturity *A* met his acceptance but *B* failed to meet his acceptance and *A* therefore had to pay it. *A* then drew and *B* accepted a new bill at three months for the amount due plus Rs. 15 for interest. On 1st November, *B* became insolvent and paid to his creditors only 50 paise in the rupee. Pass Journal entries to record these transactions in the books of *A*.

41. Latika for mutual accommodation draws a bill for Rs. 3,000 on Sunita. Latika discounted the bill for Rs. 2,925 and remits Rs. 975 to Sunita. On due date, Latika is unable to remit her dues to Sunita to enable her to meet the bill. She, however, accepts a bill for Rs. 3,750 which Sunita discounts for Rs. 3,525. Sunita sends Rs. 175 to Latika. Latika becomes insolvent and a dividend of 80 paise in the rupee is received from her estate.

Pass Journal entries and show the account of Sunita in the books of Latika.

42. For mutual accommodation of themselves Patel and Murty draw bills on each other. On January 2, 19... Patel draws a bill on Murty for Rs. 1,000 payable three months and on 3rd January, 19...Murty draws a bill on Patel for Rs. 500 payable three months to arranged, both the bills are immediately discounted @ 5% per annum and the proceeds are shared equally. On maturity of the first bill, Murty becomes insolvent and is unable to honour the bill. A dividend of 50% however, is realised from his estate on June 30, 19...

Patel received from Murty's estate Rs. 375.

Pass necessary journal entries in the books of Patel and Murty.

43. On 1st October, 1979, *X* draws a bill on *Y* for Rs. 500 and *Y* draws a bill on *X* for a similar amount, both the bills being for a term of three months. Both bills were discounted at the bank at 6%. On the due date *Y* met his bill. *X*, however notified *Y* of his inability to meet the bill and *Y*, therefore had to take it up, *X* paid *Y* Rs, 200 on 3rd Jan., 1980 and accepted another bill drawn on him by *Y* at two months date for Rs. 307 including interest. The acceptance having been met by *X* on due date. Pass Journal entries in the books of both the parties.

44. On 1st January, 1977 *A* for the mutual accommodation of himself and his friend *B*, draw on the latter a bill for Rs. 10,000 payable at three months date. The bill was discounted with Bank of India at 12% per annum and 50% of proceeds were remitted to *B*.

On 3rd Jannuary 1977 *B* drew on *A* for Rs. 16,000 payable at three months date. The bill was discounted with Bank of India at 10% and 50% of the proceeds were remitted to *A*. *B* became insolvent on 28th February, 1977 and only 40% could be recovered from his estate. Write the Journal entries and prepare *B*'s account in the ledger of *A*.

45. *X* draws a bill for Rs. 3,000 and Y accepts the same for the mutual accommodation of both of them to the extent of *X* 2/3 and *Y* 1/3. *X* discounts the same for Rs. 2,820 and remits 1/3rd of the proceeds to *Y*. Before the due date, *Y* draws another bill for Rs. 4,200 on *X* in order to provide funds to meet the first bill. The second bill is discounted for Rs. 4,080 with the help of which the first bill is met and Rs. 720 are remitted to *X*. Before the due date of the second bill *X*, becomes bankrupt and *Y* receives a dividend of 50 P. in the rupee in full satisfaction.

Pass the necessary Journal entries in the books of *X* and *Y* respectively.

46. On 1st October, 1977 Ram drew a bill on Shyam for Rs. 1,000 and Shyam drew a bill on Ram for similar amount, both the bills being for a term of three months. Both the bills were discounted by the respective parties at 6%. On the due date, Shyam met the bill Ram however, notified Shyam of his inability to meet the bill. Ram paid Rs. 400 on 3rd January, 1978 and accepted another bill drawn on him by Shyam at two month's date for Rs. 610 including interest which bill was met by Ram on the due date. Pass Journal entries in the books of Ram.

19

# ACCOUNTS OF NON-TRADING INSTITUTIONS

## Receipts and Payments Account, Income and Expenditure Account and Balance Sheet

Non-trading institutions can be classified into two parts (*i*) those that work with the intention of earning profit ; (*ii*) those that work with a charitable purpose. Examples of first type are registered accountants, doctors, lawyers engineers etc. Example of the second type are entertainment societies, clubs, educational institutions, charitable dispensaries, orphanages etc.

All the professional and charitable institutions have also to prepare regular and proper accounts to avoid any fraud and to safeguard their assets. General principles of book-keeping and accountancy apply to these institutions in the same way as they apply to the trading institutions. It may be mentioned that there is difference in the names of accounts and statements as prepared by trading concerns and non-trading concerns. For example, Cash Book and Profit and Loss Account of the trading concern become Receipts and Payments Account and Income and Expenditure Account respectively in non-trading concerns. Generally following accounts and statements are prepared in non trading concerns—(*i*) Receipts and Payments Account ; (*ii*) Income and Expenditure Account ; and (*iii*) Balance Sheet.

## Receipts and Payments Account

According to *William Pickles* "Receipts and Payments Account is nothing more than a summary of the Cash Book (Cash and Bank transactions) over a certain period, analysed or classified under suitable headings. It is the form of account most commonly adopted by the treasurers of societies, clubs. associations when preparing the results of the year's working". The main difference between the Cash Book and Receipts and Payments Account is that in a Cash Book all Cash transactions are recorded date-wise in detail. All payments made in a year, *e.g.*, wages, salaries, water, electricity etc. whether related to the last year or current year or next year, are recorded in this account after proper classification. Following points are worth-mentioning with regard to this account.

(*i*) This account is a summary of all cash and bank transactions. All the receipts and payments are recorded in this account, whether they relate to this year, last year or next year, whether they are capital expenditure or revenue expenditure.

(*ii*) This is a Real Account. Therefore all the rules of Real Account apply while preparing the same.

(*iii*) This account begins with the opening balance of Cash or bank.

(*iv*) All the cash receipts, whether capital receipts or revenue receipts, are entered on the debit side of this account.

(*v*) All cash payments, whether capital or revenue, are entered on the credit side of this account.

(*vi*) In this account there is a record of all the capital and revenue items, so it is not accompanied by a Balance Sheet.

(*vii*) This account does not include outstanding expenses and incomes earned but not received.

**Income and Expenditure Account**

This account is prepared more or less in the same manner in which the Profit and Loss Account is prepared. It includes the details of the income and expenditure of the current year only. Therefore, non-trading institutions prepare this account to know the excess of income over expenditure or excess of expenditure over income.

**Important points regarding Income and Expenditure Account**

(*i*) There are no opening and closing balances in this account.

(*ii*) There are no capital receipts and capital expenses in this account.

(*iii*) Assets are not recorded in this account because it is supplemented by a Balance Sheet.

(*iv*) This account is prepared according to the same principles as the profit and Loss Account and therefore revenue expenses of the current year are shown on the debit side of this account and revenue receipts are shown on the credit side of this account.

(*v*) It is necessary to provide for depreciation any Reserve for Bad and Doubtful Debts in this account.

(*vi*) If for the current year any expense remains unpaid, it must be brought into account. Similarly, if some income that has been earned and not yet been actually received ,it should be brought into books.

### Difference between Receipts and Payments Account and Income and Expenditure Account

| *Receipts and Payments Account* | *Income and Expenditure Account* |
|---|---|
| (1) **Form** This is a short form of the Cash Book. | (1) It is prepared in place of profit and Loss account. |
| (2) **Cash or Bank Balance**—It begins with the opening balance of cash or bank. | (2) All revenue expenses (cash or credit) of the current year are shown in this account. |
| (3) **Cash expenditure**—All those cash expenses that have been paid in the current year, whether related to the current year or last year, are shown in this account. | (3) All revenue expenses, whether cash or credit, of the current year are shown in this account. |
| (4) **Capital income and expenses**—Capital expenses and income paid or received in cash are shown in this account. | (4) Capital income and expenditure are not shown in this account. |
| (5) **Adjustments**—There is no need of any adjustment entries in it. | (5) It is necessary to make adjustments in this account. |
| (6) **Unearned income**—When unearned income is received, it is recorded in this account. | (6) Unearned income is not shown in this account. |
| (7) **Balance Sheet** –It is not supplemented by any Balance Sheet. | (7) It is supplemented by a Balance Sheet. |
| (8) **Credit transactions**—Credit purchases and credit sales are not recorded in this account. | (8) Credit purchases and credit sales are recorded in this account. |
| (9) **Sides**—Left hand side of this account shows receipts and right hand side shows the payment. | (9) Left hand side of this account shows expenses and right hand side shows income. |
| (10) **Closing Balance**—Closing balance of this account shows closing cash or bank balance. | (10) Closing balance of this account shows excess of income over expenditure or excess of expenditure over income. |

### Balance Sheet

Income and Expenditure Account shows the income and expenditure only. Therefore, the non-trading concerns, in order to know their financial position, prepare the Balance Sheet also along with the Income and Expenditure Account. Any Excess of Assets over Liabilities in a non-trading concern is called Capital Fund or Accummulated Fund. Thus Capital Fund in non-trading concern occupies the same position which the Capital Account in the trading concerns occupies. Thus Capital Fund includes the excess of Assets over Liabilities and all those receipts that have been capitalised. Capital Fund is shown on the liabilities side of the Balance Sheet.

**Peculiar items of non-trading concerns**

(1) **Entrance Fee** – Entrance fee is shown on the debit side of Receipts and Payments Account Accountants differ on the view whether entrance fee is a capital receipt or a revenue receipt. Some believe that a member pays the entrance fee only once in life, so it should be treated as capital receipt. Others believe that every year new members join and pay entrance fee. So it is a regular income and should be treated as revenue receipt. In the examination, questions should be solved according to the instruction given in the question.

(2) **Subscription** – Subscription is the main source of income of the non trading concerns The subscription received *for* a particular year is shown in the income and expenditure account of that year. However, the total subscription received *during* a particular year may not necessarily be for that year. Some part of it may belong to the previous year or the year to come. As such we have to calculate the amount for the current year for accounting purposes.

| | | |
|---|---|---|
| ***Total*** Subscriptions received (previous, current and future period) | | — |
| ***Add*** (*i*) Subscription Outstanding at the end of current year | — | |
| (*ii*) Subscription received in advance at the beginning of the current year | — | |
| | | — |
| | | — |
| ***Less*** (*i*) Subscription Outstanding at the beginning of the previous year | — | |
| (*ii*) Subscription received in advance at the end of the current year (For Future year) | — | |
| | | — |
| | | — |

**Illustration 19-1**

Subscriptions received during the year ended on 31-12-1979 are as follows :

| | Rs. |
|---|---|
| 1978 | 240 |
| 1979 | 12,660 |
| 1980 | 480 |
| | 13,380 |

There are 900 members, each paying an annual subscription of Rs. 15, Rs. 270 were in arrears for 1978 at the beginning of 1979.

**Solution**

| | Rs. |
|---|---|
| **Subscriptions received during 1979** | **13,380** |

| | | |
|---|---|---|
| *Add* Subscription outstanding on 31.12.79 (Rs. 30 for 1978 and Rs. 840 for 1979) | (+) | 870 |
| | | 14,250 |
| *Less* Subscription outstanding on 1-1-79 | (−) | 270 |
| | | 13,980 |
| *Less* Subscription received in advance for 1980 | (−) | 480 |
| | | 13,500 |

**Note.** In this example, the subscription which is to be accounted for in the Income and Expenditure account for the year can be arrived at without all these calculations. This can be done by multiplying the amount of subscription with the number of the members, *viz.*

$$900 \times 15 = \text{Rs. } 13{,}500.$$

(3) **Donation**—Donation should be shown in the Receipts and Payments A/c or Income and Expenditure A/c, it depends upon the nature of donation. Donation can be of two types :—

(*i*) *General Donation* This is shown in Receipts and Payments A/c. When this amount is small then it is treated as revenue receipt and is shown on the debit side of Income and Expenditure A/c. When the amount is substantial it is treated as capital receipt and is shown on the Assets side of the Balance Sheet. Which amount is big and which amount is small, depends on the nature of the institution.

(*ii*) *Specific Donation* Specific donations are given for a specific purpose *e.g.* donation for building construction, for running a hospital, for liabrary etc. Specific donations are treated as capital receipts and are shown on the Assets side of the Balance Sheet.

(4) **Legacies**—Non trading institutions can get some amount from legacies also. It should be shown on the receipts side of the Receipts and Payments A/c. But it should not be treated as income. However, if the amount is too small it can be treated as income and shown in the Income and Expenditure A/c.

(5) **Sale of an Old Asset** - When some old asset is sold, it is shown in the Receipts and Payment A/c. But from there it is not transferred to Income and Expenditure A/c because it is a capital receipt. But the profit or loss from the sale of such an asset must be shown in the Income and Expenditure A/c. For example, a dispensary has got a furniture for Rs. 300. Out of which some furniture cost of which is Rs. 100, is sold for Rs. 80 there is a loss of Rs. 20. It will go to Income and Expenditure A/c In the Balance Sheet the furniture will be shown at Rs. 300—Rs. 100 = Rs. 200.

**Illustration 19-2**

**On 1st July 1978 the book value of Furniture was Rs. 24,000. On 1st January 1979 half of the furniture was sold for Rs. 8,000. Depreciation is being charged @ 10% per annum. How the loss on sale and depreciation will be shown in the Income and Expenditure Account and how Furniture Account will appear in the Balance Sheet on 30th June 1979.**

**Solution**

INCOME AND EXPENDITURE A/c
*For the year ending 30th June 1979*

| *Expenditure side* | | | | |
|---|---|---|---|---|
| To loss on Furuiture (Book value on 1-7-78) | 12,000 | | | |
| - Dep. for 6 months | 600 | | | |
| | 11,400 | | | |
| — Amount of Sale | 8,000 | 3,400 | | |
| To Depreciation (on Rs. 12,000 for 6 months) | 600 | | | |
| (or Rs. 12,000 for 1 year) | 1,200 | 1,800 | | |

BALANCE SHEET
*As on 30 June 1979*

| *Asset side* | | |
|---|---|---|
| Furniture | 12,000 | 10,800 |
| —Depreciation | 1,200 | |

(6) **Sale of old sports material**—Such sales are frequent in non-trading concerns. So they are shown in the Income and Expenditure Account.

(7) **Sale of old newspaper.**—It is also a regular feature and shown in the Income and Expenditure Account.

(8) **Life membership fees**—This fee is recovered from such permanent members of the organisation who do not pay the annual fees. This amount is shown in Receipt and Payment Account. This is treated as Capital Revenue and is, therefore, not shown in the Income and Expenditure account. This is shown as an addition to the Capital Fund in the Liabilities side in the Balance Sheet.

(9) **Special purpose fund**—When any fund is raised for some special purpose like 'Charity Fund' or 'Prize Fund' the receipts in connection with these funds as also the expenditure on these accounts are not shown in the Income and Expenditure account of the organisation. The balance, after adding all the receipts and deducting all the expenditure for these heads from it, is shown as assets in the Balance Sheet.

**Conversion of Receipts and Payments Account into income and Expenditure Account**

Following points should be kept in mind while converting a Receipts and Payments Account into an Income and Expenditure Account—

(1) First of all we should leave out the opening and closing balances of the Receipts and Payments Account.

(2) Capital receipts and payments should also be left out.

(3) Proper adjustment should be made for expenses and incomes of the last year and next year so that they may not affect the Income and Expenditure Account :

(i) Incomes of the last year and next year should be deducted from the total income.

(ii) Expenses of the last year and next year should be deducted from total expenses.

(4) Total expenses of the current year should be shown *i.e.* outstanding expenses should also be added to the expenses paid

(5) Income due but not received should be added to the income of the current year.

(6) Depreciation on assets and Reserve for Bad and Doubtful Debts should be provided.

**Calculation of Actual Expenditure**—The actual total expenditure for the year is shown in the Receipts and Payment account. Since only such expenses are to be shown which pertains to the current year, adjustments for such expenses, which pertain to previous year or to the coming year, have to be made.

**Illustration 19-3**

What would be the amount of rent to be debited to Income and Expenditure Account for the year 1979 under the following circumstances—

| | | | Rs. |
|---|---|---|---|
| Jan. | 1, 1979 | Rent Outstanding | 1,200 |
| Dec. | 31, 1979 | Prepaid Rent | 1,600 |
| | | Rent paid during the year | 13,000 |

**Solution**

| | Rs. |
|---|---|
| Amount of rent actually paid | 13,000 |
| *Less* : Paid for previous year (1978) | 1,200 |
| | 11,800 |
| *Less* : Prepaid for 1980 | 1,600 |
| Amount of rent to be debited to Income and Expenditure Account | 10,200 |

**Illustration 19-4**

Calculate what amount will be posted to Income and Expenditure Account for the year ending 31st December, 1978 :—

| | Rs. |
|---|---|
| Stock of stationery on 1st January, 1978 | 300 |
| Creditors for stationery on 1st January 1978 | 200 |
| Advance paid for stationery carried forward from 1977 | 20 |
| Total amount paid for stationery during the year 1978 | 1,080 |
| Stock of stationery on 31st Dec., 1978 | 50 |
| Creditors for stationery on 31st Dec., 1978 | 130 |
| Advance paid for stationery on 31st Dec. 1978 | 30 |

**Solution.**

| | | Rs. |
|---|---|---|
| Stock of stationery on 1st Jan. 1978 | | 300 |
| *Add* stationery received during the year 1978, Payments made | 1,080 | |
| *Add* payments made last year stationery received this year | 20 | |
| *Add* creditors at the end of the year for credit purchases | 130 | (+) 1,230 |
| | | 1,530 |
| *Less* creditors for stationery on 1st Jan. 1978 (payments for last year) | 200 | |
| *Less* Advance payment for next year | 30 | |
| *Less* Stock of stationery at the end of the year | 50 | (−) 280 |
| Stationery actually used during the year | | 1,250 |

## FORMAT OF RECEIPTS & PAYMENTS ACCOUNT

***For the year ending...***

| | Rs. | | Rs. |
|---|---|---|---|
| To Balance b/d | | By Repairs | |
| ,, Subscriptions | | ,, Purchase of Books | |
| ,, Donations | | ,, Printing & Stationery | |
| ,, Entrance Fee | | ,, Salaries | |
| ,, Life Membership Fee | | ,, Purchase of Furniture | |
| ,, Income from Lecturers | | ,, Sundry Expenses | |
| ,, Sale of old Funiture | | ,, Rent & Taxes | |
| ,, Sale of old Newspapers | | ,, Insurance | |
| ,, Rent | | ,, Balance c/d | |
| ,, Interest on Investment | | | |

## FORMAT OF INCOME AND EXPENDITURE ACCOUNT

*For the year ending...*

| | Rs. | | Rs. |
|---|---|---|---|
| To All Revenue Expenses paid during the year<br>— Expenses paid for the last year<br>— Expenses paid for future<br>+ Current year's outstanding<br>To Excess of Income over Expenditure (Profi) | ------<br>===== | By All Revenue Income received during the year<br>— Income received for the past<br>— Income received for the future<br>+ Income due, but not received<br>My Excess of Expenditure over Income (Loss) | ------<br>===== |

**Illustration 19-5**

From the information given below draft Receipts and Payments Account of Saraswati Vihar Club, Delhi for the year ended on 31st December, 1979.

Cash on 1-1-79 Rs. 439 ; Subscriptions Rs. 3,760 ; Donations Rs. 800 : Entrance fees Rs. 430. Rent realised from club hall Rs. 525 ; Electric charges Rs. 344 ; Taxes Rs. 49 ; Salaries and Wages Rs. 2,150 ; Honorarium to Secretary Rs. 250 ; Interest received on Investments Rs. 295 ; Printing and Stationery Rs. 35 ; Petty Cash Payments Rs. 90 ; Insurance Premium paid Rs. 31.

**Solution**

**Saraswati Vihar Club, Delhi**
**RECEIPTS AND PAYMENTS ACCOUNT**
*For the year ending 31st Dec. 1979*

| Receipts | Amount | Payments | Amount |
|---|---|---|---|
| To Balance b/d | 439 | By Electric Charges | 344 |
| To Subscriptions | 3,760 | By Taxes | 49 |
| To Donations | 800 | By Salaries and Wages | 2,150 |
| To Entrance Fees | 430 | By Honorarium to Secretary | 250 |
| To Rent realised from Club Hall | 525 | By Printing and Stationery | 35 |
| To Interest rceeived on Investments | 295 | By Petty Cash Payments | 90 |
| | | By Insurance Premium paid | 31 |
| | | By Closing Cash balance c/d | 3,300 |
| | 6,249 | | 6,249 |

**Illustration 19-6**

The following is the summary of cash transactions of the M/s Literary and Debating Club for the year ended 31st December, 1979 :

| | Rs. | | Rs. |
|---|---|---|---|
| Balance from last year | 319 | Rent and Rates | 168 |
| Entrance Fees | 255 | Wages | 245 |
| Subscriptions | 1,600 | Lighting Charges | 72 |
| Donations | 165 | Lecturer's Fees | 435 |
| Life Membership Fee | 250 | Books | 213 |
| Interest | 14 | Office Expenses | 450 |
| Profit on Entertainment | 42 | Placed on 3 per cent fixed deposit, 1st July, 1979 | 800 |
| | | Cash at Bank | 242 |
| | | Cash in hand | 20 |
| | 2,645 | | 2,645 |

At the beginning of the year the Club possessed Books worth Rs 2,000 and Furniture worth Rs. 850. Ordinary subscriptions in arrears at the beginning of the year amounted to Rs. 35 and at the end of the year Rs. 45, and six months rent (Rs. 60) was due both at the beginning of the year and at the end of the year.

Prepare Income and Expenditure Account of the Club for the year ended 31st December. 1979, and its Balance Sheet on that date after writing Rs. 50 and Rs. 113 off Furniture and books respectively.

**Solution**

**M/s Literary and Debating Club**

INCOME & EXPENDITURF ACCOUNT

*For the year ending 31st Dec. 1979*

| Expenditure | | Rs. | Income | | Rs. |
|---|---|---|---|---|---|
| To Rent and Rates | | 168 | By Entrance Fees | | 255 |
| ,, Wages | | 245 | ,, Subscription | 1,600 | |
| ,, Lighting charges | | 72 | | | |
| ,, Lecturer's Fees | | 435 | *Less* : for last year | 35 | |
| ,, Office Expenses | | 450 | | | |
| ,, Depreciation : | | | | 1,565 | |
| Furniture | 50 | | *Add* : Outstanding | 45 | |
| Books | 113 | 163 | | | 1,610 |
| | | | By Donations | | 165 |
| ,, Excess of Income over Expenditure | | 565 | ,, Interest | 14 | |
| | | | *Add* : Interest Accrued on Fixed Deposits | 12 | |
| | | | | | 26 |
| | | | By Profit on Entertainment | | 42 |
| | | 2,098 | | | 2,098 |

**BALANCE SHEET**
*As on 31st December, 1979*

| Liabilities | | Rs. | Assets | | Rs. |
|---|---|---|---|---|---|
| Rent outstanding | | 60 | Cash in hand | | 20 |
| Capital on 1-1-79 | 3,144 | | Cash at Bank | | 242 |
| *Add* : Surplus of the year | 565 | 3,709 | Fixed Deposits | | 800 |
| Life Membership Fees | | 250 | Interest Outstanding | | 12 |
| | | | Subscriptions Outstanding | | 45 |
| | | | Books in the beginning | 2,000 | |
| | | | Additions during the year | 213 | |
| | | | | 2,213 | |
| | | | *Less* : Depreciation | 113 | 2,100 |
| | | | Furniture | 850 | |
| | | | *Less* : Depreciation | 50 | 800 |
| | | 4,019 | | | 4,019 |

**Working Notes** – 1. Life Membership fees has been capitalised.

2. The Capital at Commencement is calcutated as follows :

| | | |
|---|---|---|
| Books | ... | 2,000 |
| Furniture | ... | 850 |
| Cash Balance | ... | 319 |
| Subscriptions Outstanding | ... | 35 |
| | | 3,204 |
| *Less* : Rent Outstanding | | 60 |
| Capital | ... | 3,144 |

**Illustration 19-7**

The following Receipts and Payments Account has been prepared from the Cash Book of the Saraswati Club, Allahabad.

| | Rs. | | Rs. |
|---|---|---|---|
| Balance on 1-1-76 | 255 | Rent and Rates | 1,680 |
| Members Entrance fee | 231 | Printing and Advertising | 800 |
| Subscriptions of Playing Members | | Postage and Stationery | 278 |
| 1975 | 63 | Wages and umpire's fees | 1,200 |
| 1976 | 600 | Player's Travelling Expenses | 500 |
| Subscriptions of Honorary members | | Repairs to Pavillion | 209 |
| 1975 | 260 | Extension of Pavillion | 1,956 |
| 1976 | 4,725 | Wicket Matting | 221 |
| 1977 | 120 | Bats, Balls etc. | 455 |
| Public matches | 1,120 | Balance on 31-12-76 | 216 |
| Interest on Fixed deposit | 141 | | |
| | 7,515 | | 7,515 |

An examination of invoices, vouchers and other records disclosed the following information :

Rent at Rs. 100 per month has been paid only upto 30th September, 1976 and Rates, have been paid in advance to the extent of Rs. 120. There is Rs. 180 owing for wages and umpire's fees, and a bill for Rs 55 for Bats, Balls etc. is still outstanding. Playing member's subscriptions are Rs. 40 in arrear for the year and the amount still owing by Honorary Members is Rs. 425.

Make out the Income and Expenditure Account for the year ended 31st December, 1976.

**Solution**

**INCOME AND EXPENDITURE ACCOUNT**

*For the year ended 31st Dec. 1976*

| Expenditure | | Amount | Income | | Amount |
|---|---|---|---|---|---|
| To Rent & Rates | 1,680 | | By Entrace Fee | | 231 |
| *Add* : outstanding Rent | 300 | | ,, Subscription of Playing Members | 600 | |
| | 1,980 | | *Add* Arrear | 40 | |
| *Less* : Prepaid Rates | 120 | | | | 640 |
| | | 1,860 | Honorary Members | 4,725 | |
| To Printing and Advertising | | 800 | *Add* : outstanding | 425 | |
| ,, Postage and Stationery | | 278 | | | 5,150 |
| ,, Wages and Umpire's fees | 1,200 | | By Public Matches | | 1,120 |
| *Add* : outstanding | 180 | | By Interest on Fixed Deposits | | 141 |
| | | 1,380 | | | |
| To Players' Travelling Exp. | | 500 | | | |
| ,, Repairs to Pavillion | | 209 | | | |
| ,, Wicket Matting | | 221 | | | |
| ,, Bats etc. | 455 | | | | |
| *Add* : Unpaid Bill | 55 | | | | |
| | | 510 | | | |
| ,, Excess of Income over Expenditure | | 1,524 | | | |
| | | 7,282 | | | 7,282 |

**Illustration 19-8**

From the following particulars, which relate to a commercial and Literary Society, prepare a Receipts and Payment Account, an Income and Expenditure Account and a Balance Sheet on 31st December, 1976.

BALANCE SHEET
*As on 31st December, 1975*

| | Rs. | | Rs. |
|---|---|---|---|
| Outstanding Creditors | 850 | Cash at Bank | 6,000 |
| Capital Fund | | Government Securities | 20,000 |
| Excess of Income over Expenditure | 31,150 | Accrued Interest | 250 |
| | | Outstanding Subscription | 800 |
| | | Library Books | 2,000 |
| | | Furniture & Fittings | 2,950 |
| | 32,000 | | 32,000 |

The transactions for the year 1976 were : Received from subscriptions Rs. 5,000 : Proceeds received from entertainments and lectures Rs. 2,000 ; Received from Interest on securities Rs. 950; Entrance fee received Rs. 1,000 ; Sale proceeds of old chairs Rs. 150.

Paid for Rent Rs. 1,200; for printing Rs. 300 ; for advertising Rs. 400 ; for Petty disbursements Rs. 110 ; and for the purchase of Government securities Rs. 5,000.

Paid for outstanding creditors Rs, 850 ; for Furniture Rs, 800; for Library Books Rs. 600 ; Cost of entertainments Rs. 1,500.

On 31st December 1976 the following liabilities were outstanding ; for Printing Rs. 150 and for Rent Rs. 200.

There were also outstanding on account of Interest on Securities Rs. 300 and subscriptions Rs. 650.

**Solution**

RECEIPTS AND PAYMENTS ACCOUNT
*For the year ending 31st December, 1976*

| Receipts | Rs. | Payments | Rs. |
|---|---|---|---|
| To Balance on 1-1-1976 | 6,000 | By Rent | 1,200 |
| To Subscriptions | 5,000 | „ Printing | 300 |
| To Entertainment and lectures | 2,000 | „ Advertisement | 400 |
| To Interest on Securities | 950 | „ Petty Payments | 110 |
| To Entrance fees | 1,000 | „ Govt. Securities | 5,000 |
| To Sale proceeds of old chairs | 150 | „ Payment to Creditors | 850 |
| | | „ Payment of Furniture | 800 |
| | | „ Library Books | 600 |
| | | „ Entertainment | 1,500 |
| | | „ Balance c/d on 31-12-76 | 4,340 |
| | 15,100 | | 15,100 |

## INCOME & EXPENDITURE ACCOUNT
*For the year endirg 31st Dceember 1976*

| Expenditure | | Rs. | Income | | Rs. |
|---|---|---|---|---|---|
| To Rent | 1,200 | | By Subscription | 5,000 | |
| *Add* : Outstanding | 200 | 1,400 | *Less* : Last year's Outstanding | 800 | |
| To Printing | 300 | | | 4,200 | |
| *Add* : Outstanding | 150 | | *Add* : Current year's outstanding | 650 | 4,850 |
| | | 450 | | | |
| To Advt. | | 400 | By Proceeds from entertainment and lectures | | 2,000 |
| To Petty Payments | | 110 | ,, Interest on Securities | 950 | |
| To Cost of Entertainment | | 1,500 | *Less* : Last year's Outstanding | 250 | |
| To Surplus—Excess of Income over Exp. | | 3,990 | | 700 | |
| | | | *Add* : Current year's Outstanding | 300 | |
| | | | | | 1,000 |
| | | 7,850 | | | 7,850 |

## BALANCE SHEET
*As on 31st December 1976*

| | | | | | |
|---|---|---|---|---|---|
| Capital Fund | 31,150 | | Cash at Bank | | 4,340 |
| *Add*: Entrance fees | 1,000 | | Govt. Securities | 20 000 | |
| | 32,150 | | *Add* : Purchased during the year | 5,000 | |
| *Add* : Surplus | 3,990 | | | | 25,000 |
| | | 36,140 | Furniture | 2,950 | |
| Outstanding Expenses | | | *Less* : sold during the year | 150 | |
| Rent | 200 | | | 2,800 | |
| Printing | 150 | | *Add* Purchased during the year | 800 | |
| | 350 | | | | 3,600 |
| | | | Library Books | 2,000 | |
| | | | *Add* : Purchased during the year | 600 | |
| | | | | | 2,600 |
| | | | Outstanding Receipts | | |
| | | | Interest on Securities | 300 | |
| | | | Subscriptions | 650 | |
| | | | | | 950 |
| | | 36,490 | | | 36,490 |

**Working Notes** — 1. Entrance fees, being a substantial amount has been capitalised.

**Illustration 19-9**

The following particulars relate to a sports club : –

Income and Expenditure Account for the year ended December 31, 1974 :

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Salaries | 1,500 | By Entrance Fees | 10,100 |
| To Printing and Stationery | 2,200 | By Subscriptions | 15,600 |
| To Advertising | 1,600 | By Rent | 4,000 |
| To Audit Fees | 100 | | |
| To Fire Insurance | 1,000 | | |
| To Depreciation on sports equipment | 9,000 | | |
| To Excess of Income over Expenditure | 14,300 | | |
| | 29,700 | | 29,700 |

Receipts and Payments Account for the year ended December 31, 1974 are as follows :

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Balance b/d | 4,200 | By Salaries | 1,000 |
| To Entrance Fees | 10,100 | By Ptg. and Stationery | 2,600 |
| To Subscriptions : | | By Advertising | 1,600 |
| 1973 | 600 | By Fire Insurance | 1,200 |
| 1974 | 15,000 | By Investments | 20,000 |
| 1975 | 400 | By Balance c/d | 7,400 |
| To Rent Received | 3,500 | | |
| | 33,800 | | 33,800 |

The assets on 1st January, 1974 included club Grounds and Pavillion Rs. 44,000, Sports equipment Rs. 25,000 and furniture and fixtures Rs 4,000.

Subscriptions in arrears on that date were Rs. 800.

Prepare Balance Sheets as on :

(*i*) December 31, 1973 ; and
(*ii*) December 31, 1974.

**Solution**

BALANCE SHEET
*As on 31st December, 1973*

| Liabilities and Capital Fund | Amount | Assets | Amount |
|---|---|---|---|
| Capital Fund (Balancing Figure) | 78,000 | Cash in hand | 4,200 |
| | | Subscription outstanding | 800 |
| | | Ground & Pavillion | 44,000 |
| | | Sports Equipment | 25,000 |
| | | Furniture | 4,000 |
| | 78,000 | | 78,000 |

**BALANCE SHEET**
*As on 31st December 1974*

| | | Rs. | | | Rs. |
|---|---|---|---|---|---|
| Outstanding Expenses | | | Cash in hand | | 7,400 |
| Salaries | 500 | | Subscription outstanding | | |
| Audit Fees | 100 | | for 1974 | | 600 |
| | | 600 | for 1973 | | 200 |
| Subscription received in advance | | 400 | Rent receivable outstanding | | 500 |
| Capital Fund as on 31st December 1973 | 78,000 | | Prepaid : | | |
| *Add* : Excess of income over expenditure | 14,300 | | Insurance | 200 | |
| | | | Printing and Stationery | 400 | |
| | | | | | 600 |
| | | 92,300 | Investment | | 20,000 |
| | | | Ground & Pavillion | | 44,000 |
| | | | Sports Equipment | | 16,000 |
| | | | Furniture | | 4,000 |
| | | 93,300 | | | 93,300 |

**Standard Questions**

1. Distinguish between Receipts and Payments Account and Income and Expenditure Account.

   [*Delhi Senior School Certificate Exam. 1978* (*c*) & *1979* (*c*)]

2. How would you convert the Receipts and Payments Account into Income and Expenditure Account ?

3. What is distinction between Receipts & Payments Account and Income and Expenditure Account ? How would you convert the Receipts and Payments Account into Income and Expenditure Account and what additional information would you require to do so ?

4. "Income and Expenditure Account is a Profit and Loss Account of Non-trading institution." Explain.

**Practical**

1. From the following prepare (*a*) a Receipts and Payments Account, and (*b*) an Income and Expenditure Account of the Ashoka Club for the year ended 31st December, 1979 :—

| | Rs. | | Rs. |
|---|---|---|---|
| Subscriptions received for previous year | 20 | Supplies for Refreshment Room | 85 |
| Subscriptions received for current year | 180 | Caretakers Wages | 68 |
| | | Fuel and Gas | 40 |

| | Rs. | | Rs. |
|---|---|---|---|
| Subscriptions for current year due and unpaid | 30 | Rent, Rates & Taxes | 50 |
| Receipts from hiring of rooms | 10 | Accounts due but unpaid : | |
| „ „ Billiard Room | 60 | (i) Repairs | 8 |
| „ „ Refreshment Room | 125 | (ii) Supplies | 22 |
| Paid for Salaries | 100 | Cash in hand :— | |
| Repairs | 12 | (i) 1st January '79 | 18 |
| Printing & Stationery | 30 | (ii) 31st December '79 | 28 |

**Ans.** Receipts and Payments Account Total Rs. 413. Excess of Expenditure over Income Rs. 10.

2. Prepare an Income and Expenditure Account relating to year 1979 from the figures given below :

| Receipts | Rs. | Payments | Rs. |
|---|---|---|---|
| To Opening Balance | 1,800 | By Salaries | 4,800 |
| „ Subscriptions | 9,000 | „ Rent | 500 |
| „ Sale of Investments | 2,000 | „ Stationery | 200 |
| „ Sale of old Furniture (Book value Rs. 400) | 300 | „ Defence Bonds | 3,000 |
| „ Donations | 100 | „ Furniture purchased | 2,000 |
| | | „ Bicycle purchased | 300 |
| | | „ Balance c/d | 2,400 |
| | 13,200 | | 13,200 |

**Ans.** Excess of Income over Expenditure Rs. 3,500.

3. Below is given the Receipts and Payments Account of a club. Prepare Income and Expenditure Account from it and subjoined information for the year ended on 31st December, 1977.

RECEIPTS AND PAYMENTS ACCOUNT

*For the year ended 31st December 1977*

| | Rs. | | Rs. |
|---|---|---|---|
| To Balance b/d | 1,238 | By General Expenses | 542 |
| „ Annual Subscription | 1,630 | „ Salaries | 550 |
| „ Life membership fees | 250 | „ Furniture | 800 |
| „ Entrance Fees | 200 | „ Rent | 560 |
| „ Miscellaneous Receipts | 233 | „ Printing | 125 |
| „ Interest | 40 | „ Repairs | 150 |
| | | „ Balance c/d | 864 |
| | 3,591 | | 3,591 |

On 31st December, 1977 the annual subscriptions in arrears amounted to Rs. 350, Rs. 100 is to be written off as depreciation on furniture.

**Ans.** Excess of Income over Expenditure Rs. 426.

**4.** Convert the following Receipts and Payments Account of the Delhi Nursing Society for the year ended on 30th June 1978 into an Income and Expenditure Account.

| Receipts | Amount | Payments | Amount |
|---|---|---|---|
| | Rs, | | Rs. |
| Balance at Bank 1.7.77 | 2,010 | Salaries of Nurses | 656 |
| Subscriptions | 1,115 | Board, Laundry and domestic help | 380 |
| Fees from non-members | 270 | Rent, Rates & Taxes | 200 |
| Municipal grant | 1,000 | | |
| Donations for Building Fund | 1,560 | Cost of car | 2,000 |
| Interest | 38 | Expenses of car | 840 |
| | | Drugs & Incidental Exp. | 670 |
| | | Balance c/d | 1,247 |
| | 5,993 | | 5,993 |

A donation of Rs. 100 received for Building Fund was wrongly included in Subscription Account. A Bill of medicines purchased during the year amounting to Rs. 128 was outstanding.

**Ans.** Excess of Expenditure over Income Rs. 551.

**5.** From the following Receipts and Payments Accounts of Shakti Club and from the information supplied prepare an Income and Expenditure Account for the year ended 31st December, 1977 and the Balance Sheet as on that date :

RECEIPTS AND PAYMENTS ACCOUNT

*For the year ended 31st December 1977*

| Receipts | | Rs. | Payments | Rs. |
|---|---|---|---|---|
| To Balance | | 350 | By Salaries | 1,400 |
| ,, Subscriptions : | | | ,, General Expenses | 300 |
| 1976 | 250 | | ,, Electric Charges | 200 |
| 1977 | 1,000 | | ,, Books | 500 |
| 1978 | 200 | | , Newspapers | 400 |
| | | 1,450 | ,, Balance | 200 |
| To Rent received from the use of hall | | 700 | | |
| ,, Profit from entertainment | | 400 | | |
| ,, Sales of Newspapers | | 100 | | |
| | | 3,000 | | 3,000 |

(*a*) The club has 50 members each paying an annual subscription of Rs. 25, subscriptions outstanding on 31st December, 1976 were Rs. 300.

(*b*) On 31st December, 1977 salaries outstanding amounted to Rs. 100. Salaries paid in 1977 included Rs. 300 for the year 1976.

(*c*) On 1-1-1977 the club owned Building valued at Rs. 10,000; Furniture Rs. 1,000 and Books Rs. 1,000.

(*d*) Provide depreciation on Furniture at 10 per cent.

**Ans.** Excess of Income over Expenditure Rs. 250, Capital Fund Rs. 12,350 & Balance Sheet Rs. 12,900.

6. Prepare Income and Expenditure Account and Balance Sheet from the following Receipts and Payments Account and Balance Sheet, for 1977 :

RECEIPTS AND PAYMENTS ACCOUNT

| | Rs. | | Rs. |
|---|---|---|---|
| Balance 1.1.1977 | 10,000 | Expenses : 1976 | 1,200 |
| Subscriptions : 1976 | 200 | 1977 | 2,000 |
| 1977 | 2,100 | Land | 4,000 |
| 1978 | 150 | Interest | 400 |
| Entrance Fees | 800 | Misc. Expenses | 2,000 |
| Lockers Rent | 700 | Balance 31.12.77 | 8,350 |
| Miscellaneous incomes | 4,000 | | |
| | 17,950 | | 17,950 |

BALANCE SHEET

*As on 31st December 1976*

| | Rs. | | Rs. |
|---|---|---|---|
| Capital Fund | 33,620 | Buildings | 30,000 |
| Subscription received in advance | 600 | Outstanding Subscriptions | 380 |
| Outstanding Expenses | 1,400 | Outstanding Lockers Rent | 240 |
| Loan | 5,000 | Cash | 10,000 |
| | 40,620 | | 40,620 |

**Ans.** Excess of Income over Expenditure Rs. 3,560 ; Total of Balance Sheet Rs. 42,530.

7. The following particulars relate to the Aggarwal Club for the year ended 31st December, 1977, and you are required to prepare there from an Income and Expenditure Account and a Balance Sheet :

SUMMARY OF CASH BOOK

| | Rs. | | Rs. |
|---|---|---|---|
| Balance from the last year | 2,350 | Salaries | 1,200 |
| Entrance Fees | 300 | Electric Charges | 120 |
| Subscriptions : | | Other Expenses | 525 |
| Arrears | 50 | Fixed Deposit | 2,500 |
| Current | 3,500 | Utensils | 200 |
| Advance | 75 | Creditors | 1,000 |
| Profit on Refreshments | 100 | Balance on 31.12.73 | 1,150 |
| Sundry Income | 320 | | |
| | 6,695 | | 6,695 |

The assets and liabilities on 1st January 1977 were :—

Utensils Rs. 800 ; Furniture Rs. 2,500 ; Consumable stores Rs. 350 ; Creditors Rs. 1,200.

On 31st December, 1977 the value of consumable stores in hand was Rs 700 ; the creditors amounted to Rs 550, the subscription outstanding were Rs. 75 ; and the interest accrued on Fixed Deposit was estimated at Rs. 25. Depreciate Furniture by 10% and Utensils by 15% on the Closing Balances.

**Ans.** Capital Fund Rs. 4 850 ; Surplus Rs 2,075 ; Balance Sheet Total Rs 7,550.

**8.** From the following particulars, prepare Income and Expenditure Account of the M/s Kalyan Club for the year ended 31st December 1979 and Balance Sheet as on that date :—

| | Rs. | | Rs. |
|---|---|---|---|
| Rates & Taxes | 263 | Printing and Stationery | 631 |
| Salaries | 12,918 | Auditors' Fee | 300 |
| Library Maintenance | 1,975 | Advertisements | 457 |
| Repairs to premises | 792 | Law Charges | 603 |
| Staff Super annuation | | Members Subscriptions | 30,920 |
| Premiums | 1,386 | Interest on Investments | 981 |
| Entrance Fees | 325 | Sundry Creditors | 8,378 |
| Accumulated Fund | 33,780 | Freehold Land & Building | |
| General Reserve | 12,324 | at Cost | 23,500 |
| Investments at cost | | Furniture | 4,380 |
| (Market rates) | 26,500 | Library Books and | |
| Sundry Debtors | 1,870 | Magazines | 3,530 |
| Postage and Telephone | 1,815 | Cash at Bank | 5,367 |
| | | Cash in hand | 721 |

*Adjustments* :—Members Subscriptions to the extent of Rs. 785, are outstanding Building insurance Premium, (Included in postage and telephone) Rs. 240 annually has been prepaid for three months. Land and Building is to be depreciated @ 2%, Furniture @ 5% Books and Magazines 10%, make a specific Reserve of 10% on Debtors.

**Ans.** Surplus Rs. 10,702, Balance Sheet Rs. 65,484.

9. The following is a summary of the cash transactions of Lakshmi Club for the year ended 30th June, 1979 :

| | Rs. | | Rs. |
|---|---|---|---|
| Balance of Last Year | 320 | Rent and Rates | 170 |
| Subscription and Entrance Fees | 1,860 | Wages of servants | 240 |
| Donations | 120 | Light, Repairs etc. | 86 |
| Life Membership fee | 250 | Lecturer's fees & expenses | 835 |
| Interest on Investment | 100 | Purchases of table | 40 |
| Profit from Entertainment | 40 | Office Expenses | 125 |
| | | Purchase of National Certificates | 475 |
| | | Cash in hand | 394 |
| | | Sundry Expenses | 325 |
| | 2,690 | | 2,690 |

At the beginning of the year Lakshmi Club had investments worth Rs. 3,251 and musical instruments worth Rs. 870. There were 32 life members on that date, each of whom had paid to subscription of Rs. 50. There was a separate fund for this purpose. Ordinary subscription in arrear at the beginning of the year amounted to Rs. 35 and at the end of the year to Rs. 45 and six months rent (Rs. 60) was due both at the beginning and end of the year.

Prepare Income and Expenditure Account of Lakshmi Club for the year ended 30th June, 1979 and Balance Sheet as on that date.

**Ans.** Capital Fund Rs. 4,416 ; Excess of income over expenditure Rs. 349 ; Total of Balance Sheet Rs. 6,425.

10. From the following Receipts and Payments Account of a Club and from the information supplied, prepare an Income and Expenditure Account for the year ended 31st December, 1979 and the Balance Sheet as on that date :

RECEIPTS AND PAYMENTS ACCOUNT

| | Rs. | | Rs. |
|---|---|---|---|
| To Balance | 250 | By Salaries | 1,200 |
| To Subscriptions for 1978 | 250 | ,, General Expenses | 300 |
| 1979 | 1,000 | ,, Electric Charges | 200 |
| 1980 | 200 | ,, Books | 100 |
| To Sale of old Furniture (costing Rs. 100) | 60 | ,, Newspapers | 400 |
| To Rent Received from the use of Hall | 740 | ,, Postage | 50 |
| To Profit from Entertainments | 400 | ,, Furniture | 250 |
| To Sale of Newspapers | 100 | ,, Balance | 500 |
| | 3,000 | | 3,000 |

*Information* :

(*a*) The Club has 50 members each paying an annual subscriptions of Rs. 25. Subscriptions outstanding on 31st Dec. 1978, were Rs. 300.

(*b*) On 31st December, 1979 Salaries outstandings amounted to Rs. 100. Salaries paid included Rs. 100 for the year 1978.

(*c*) On 1-1-1979, the Club owned Land and Building valued at Rs. 10,000 ; Furniture Rs. 600 and Books Rs. 550.

(*Delhi Senior School Certificate Exam. 1978*)

**Ans.** Excess of Income over Expenditure Rs. 300 ; B/S Total Rs. 12,150 ; Capital Fund on 1-1-1979 Rs. 11,550.

**11.** The South Sports Club gives you the following Receipts and Payments Account for the year ended 31st December, 1979 :—

| RECEIPTS | Rs. | PAYMENTS | Rs. |
|---|---|---|---|
| Cash in Hand | 150 | Grounds Men's Fees | 1,500 |
| Cash at Bank | 2,100 | Moving Machine | 1,100 |
| Subscriptions | 5,800 | Rent | 500 |
| Tournament Fund | 1,500 | Salaries to Coaches | 3,600 |
| Life Memberships | 2,000 | Tournament Expenses | 900 |
| Entrance Fees | 200 | Office Expenses, Postage etc. | 2,400 |
| Donation for the Pavillion | 3,000 | Sports Equipment Purchased | 1,200 |
| Sale of Grass | 100 | Cash in Hand | 350 |
| | | Cash at Bank | 3,300 |
| | 14,850 | | 14,850 |

Subscription due on 31st December, 1978 and on 31st December, 1979 were Rs. 900 and Rs. 800 respectively. Subscription received also include subscription for 1980, Rs. 200. Sports equipment on 31st December, 1978 was Rs. 1,100. The value placed on the equpiment in hand on 31st December, 1979 was Rs. 1,500. The moving machine was purchased on 1st July, 1979 and it is to be depreciated @ 20% p. a. Office Expenses include Rs. 300 for 1978 and Rs. 400 are still due for payment. Tournament receipts and expenses are to be separated from the general incomes and expenses.

Prepare Income and Expenditure Account and Balance Sheet relating to 1979.

**Ans.** Excess of Expenditure over Income Rs. 3,410 ; **Balance Sheet** Total Rs. 6,740 ; Capital **Fund 1-1-79 Rs. 3,950.**

**Note. Life Membership Fees has been capitalised.**

12. From the following Receipts and Payments Account of a Club for the year ended 31st December, 1978 and the sub-joined information prepare an Income and expenditure Account for the year ended 31st December, 1978 and a Balance Sheet as on that date :

| RECEIPTS | Rs. | PAYMENTS | Rs. |
|---|---|---|---|
| To Balance b/d | 1,500 | By Salaries | 1,500 |
| To Subscriptions for | | By Entertainment Expenses | 600 |
| 1977 | 100 | By Electric Charges | 200 |
| 1978 | 2,000 | By General Expenses | 300 |
| 1979 | 200 | By Investments | 1,000 |
| To Entertainment Receipts | 1,000 | By Stationery and Printing | 200 |
| To Sale of old Furniture (costing Rs. 100) | 60 | By Newspapers | 300 |
| To Sale of News-papers | 40 | By Garden Expenses | 200 |
| | | By Furniture | 300 |
| | | By Balance c/d | 300 |
| | 4,900 | | 4,900 |

The club has 250 members each paying an annual subscription of Rs. 10. **Rs. 50** is still in arrears for subscriptions for 1977. In 1977, 10 **members** have paid their subscriptions for 1978 as well. Salaries paid included Rs. 100 for 1977 and Rs. 150 for 1979. Outstanding Salaries for 1978 amounted to Rs. 200.

On 1-1-78, the club owned Land and Building valued at Rs. 10,000 and Furniture valued at Rs. 1,100.

Interest for 3 months at 6% per annum has accrued on investments.

**Ans.** Surplus Rs. 265 ; B/S Total Rs. 13,215 ; Capital **Fund** on 1-1-78 Rs. 12,550.

13. The Under-noted Receipts & Payments Account of Kanpur **Club** is for the year ended 31st, December 1979. Other Ledger balances of the Club on that date were : Capital A/c (Donations etc.) Rs. 30,250 ; Club House and Grounds (as per valuation) Rs. 20,000 ; Investment at cost Rs. 9,620 ; Furniture Rs. 3,200 and Expenditure Account (Cr. balance brought forward) Rs. 2,965.

Receipts and Payments Account for the year ended 31st December, 1979 are as under.

| | Rs. | | Rs. |
|---|---|---|---|
| To Balance 1st Jan. 1979 | 745 | By Upkeep of Grounds (a) | 4,750 |
| To Subscrption | 6,800 | By Wages of Grounds man | 4,680 |
| To Entrance Fees | 260 | By Ground Rent | 105 |
| To Interest on Investments | 420 | By Printing and Stationery (b) | 465 |
| To Proceeds of Lect. Concerts etc. | 2,590 | By Postage | 95 |
| | | By Balance c/d | 720 |
| | 10,815 | | 10,815 |
| To Balance b/d | 720 | | |

(*a*) This item includes Rs. 250 applicable to the previous year (*b*) This item included Rs. 100 applicable to the previous year. Entrance Fees are to be capitalised. The outstanding items on 31-12-1979 are printing and stationery Rs. 80. The Social Literary Association owed Rs. 105 for the use of the Society's Hall. Charge 10% for Depreciation on Furniture etc. Prepare the Income and Expenditure Account for the year and Balance Sheet as at 31-12-1979.

**Ans.** Excess of Expenditure over Income, Rs. 230, Balance Sheet total Rs. 33,325.

**14.** The following are the particulars of cash transactions for the year ended on 31st December, 1977 of the 'Hindi Sahitya Samiti :

| | Rs. | | Rs. |
|---|---|---|---|
| To Balance b/d | 3,190 | By Rent and taxes | 1,680 |
| To Admission Fees | 2,550 | By Wages | 2,450 |
| To Annual Subscription | 16,000 | By Light | 720 |
| To Donations | 1,650 | By Lecture Expenses | 4,350 |
| To Life Membership Fees | 2,500 | By Books | 2,130 |
| To Interest | 140 | By Office Expenses | 4,500 |
| To Profit from entertainment | 420 | By 3% Fixed Deposit (1-7-1977) | 8,000 |
| | | By Balance c/d | 2,620 |
| | 26,450 | | 26,450 |

The following facts are furnished :—

(*i*) There were books costing Rs. 20,000 and Furniture worth Rs. 8,500 on January 1, 1977.

(*ii*) Outstanding annual subscription on 1st Jan. 1977 Rs. 350 and 31-12-1977 Rs. 450.

(*iii*) Rs. 600 for Rent were outstanding on January 1, 1977 as well as on 31-12-1977.

(*iv*) Provide depreciation on books Rs. 1,130 and on Furniture Rs. 500.

Prepare Income and Expenditure Account for the year ended on 31st December 1977 and a Balance Sheet as on that date.

**Ans.** Excess of Income over Expenditure Rs. 5,650 ; Balance Sheet Total Rs. 40,190.

**Note**—Life Membership Fees has been capitalised.

**15.** From the following particulars which relate to a Commercial and Literary Society, Prepare an Income and Expenditure Account and a Balance Sheet as on 31st December, 1977.

BALANCE SHEET

*As on 31st December, 1976*

| *Liabilities* | Rs. | *Assets* | Rs. |
|---|---|---|---|
| Outstanding Creditors | 425 | Cash at Bank | 3,000 |
| Capital Fund ; | | Govt. Securities | 10,000 |
| Excess of Income over Expenditure | 15,575 | Accrued Interest | 125 |
| | | Outstanding Subscription | 400 |
| | | Library Books | 1,000 |
| | | Furniture and Fittings | 1,475 |
| | 16,000 | | 16,000 |

The transactions for the year 1977 :—

*Receipts* : Subscription Rs. 2,500 ; Proceeds received from Entertainment and Lectures Rs. 1,000 ; Insterest on Securities Rs. 475 ; Entrance Fees received Rs. 500 ; Sale proceeds of old Furniture Rs. 75.

*Payments* : Rent Rs. 600 ; Printing Rs. 150 ; Advertising Rs. 200 ; Petty expenses Rs. 55 ; Government Securities Rs. 2,500 ; Furniture Rs. 400 ; Library Books Rs. 300 ; Cost of Entertainment Rs. 750.

The following were outstanding as on 31st December 1977 Printing Rs. 75.; Rent Rs. 100 ; Interest on securities Rs. 150 ; and Subscription Rs. 325.

Cash in hand on 31st December, 1977 was Rs. 2,170.

[*Delhi Senior School Certificate Exam. 1978* (*c*)]

**Ans.** Excess of income over expenditure Rs. 1,995 and Total of Balance Sheet Rs. 18,245

**Working Notes** – (*i*) Entrance Fees, being a substantial amount has been capitalised.

(*ii*) It has been assumed that creditors for Rs. 425, as on 31st December 1976 to be paid off during the year 1977.

**16.** From the following particulars relating to Ramakrishna Mission Charitable Hospital, prepare Income and Expenditure Account for the year ended 31st December, 1981 and Balance Sheet as at that date.

RECEIPTS AND PAYMENTS ACCOUNT

*For the year ended 31st December, 1981*

| *Receipts* | *Rs.* | *Payments* | *Rs.* |
|---|---|---|---|
| To Cash in hand on 1st January 1981 | 7,130 | By Medicines | 30,590 |
| To Subscriptions | 47,996 | By Doctors' Honorarium | 9,000 |
| To Donations | 14,500 | By Salaries | 27,500 |
| To Interest on Investment @ 7% for full-year | 7,000 | By Petty Expenses | 461 |
| To Proceeds from Charity Show | 10,450 | By Equipment | 15,000 |
| | | By Expenses on Charity Show | 750 |
| | | By Cash in hand on 31st December, 1981 | 3,775 |
| | 87,076 | | 87,076 |

*Additional Information* :

| | On *1st Jan. 1981* Rs | On *31st Dec. 1981* Rs. |
|---|---|---|
| (*i*) Subscription Due | 240 | 280 |
| (*ii*) Subscriptions Received in Advance | 64 | 100 |
| (*iii*) Stock of Medicines | 8,810 | 9,740 |
| (*iv*) Estimated Value of Equipment | 21,200 | 31,600 |
| (*v*) Buildings (cost less depreciation) | 40,000 | 38,000 |

**Ans.** Excess of Income over Expenditure Rs. 5,979 : Total of Balance Sheet Rs 1,83,395.

**17.** The following is the Receipts and Payments Account of Saraswati Club for the year ended 31st December, 1971.

| | | Rs. | | | Rs. |
|---|---|---|---|---|---|
| Cash in hand (1-1-71) | | 1,500 | Bank Overdraft (1-1-71) | | 3,100 |
| Subscriptions : | | | Investment in Securities | | 3,000 |
| 1970 | 300 | | Furniture | | 1,450 |
| 1971 | 16,200 | | Salaries | | 6,200 |
| 1972 | 150 | 16,650 | Stationery & Printing | | 890 |
| | | | Misc. Expenses | | 1,420 |
| Income from Entertainments | | 290 | Balance on 31-12-71 : | | |
| Entrance Fees | | 670 | Cash in hand | 550 | |
| Interest on Securities | | 480 | Cash at Bank | 3,100 | 3,650 |
| Sale proceeds of old chairs | | 120 | | | |
| | | 19,710 | | | 19,710 |

Prepare Income and Expenditure Account of the Club for the year ended 31st December, 1971, and a Balance Sheet

as at that date having due regard to the following additional information :

(*i*) The Club has 1,800 members, each paying an annual subscription of Rs. 10. Subscriptions amounting to Rs. 90 are in arrears in respect of the year 1970.

(*ii*) Stock of Stationery on 31st December, 1970 was Rs. 125 and at 31st December, 1971 Rs. 87.

(*iii*) Entrance fees are to be capitalised.

(*iv*) Salary of Rs. 550 for December 1971, is outstanding. Expenses accruing at 31st December 1970, amounted to Rs 132, The Club has paid Rs. 550 in the year 1970 towards telephone charges of which Rs. 125 relate to 1971.

(*v*) As on 31st December, 1970, Premises stand in the books at Rs. 24,500 and Investments at Rs. 6,500. Depreciate Premises and Furniture by 5 per cent.

**Ans**. Capital Fund Rs. 20,908 ; Excess of Income over Expenditure Rs. 8,501·50 ; Total of Balance Sheet Rs. 39,779·50.

**18**. Given below is the Receipts and Payments Account of a club for the year ending 31st December, 1976.

**RECEIPTS AND PAYMENTS ACCOUNT**
***For the year ending 31st Dec. 1976***

| | Rs. | | Rs. |
|---|---|---|---|
| To Balance | 1,025 | By Salaries | 600 |
| To Subscription : | | By Expenses | 75 |
| 1975 | 40 | By Drama Expenses | 450 |
| 1976 | 2,050 | By Newspapers | 150 |
| 1977 | 60 | By Municipal Taxes | 40 |
| To Donations | 540 | By Charity | 350 |
| To Sale of Drama tickets | 950 | By Investments | 2,000 |
| To Sale of waste paper | 45 | By Electric Charges | 145 |
| | | By Balance | 900 |
| | 4,710 | | 4,710 |

Prepare the club's Income and Expenditure Account for the year ended 31st December and its Balance Sheet as on that date after taking the following information into account :

(*i*) There are 500 members each paying an annual subscription of Rs. 5 ; Rs. 50 being in arrears for 1975.

(*ii*) Municipal Taxes amounting Rs. 40 per annum have been paid up to 31st March 1977 and Rs. 50 for salaries is outstanding.

(*iii*) Building stand in the books at Rs. 5,000.

(*iv*) 6% interest has accrued on investments for five months.

**Ans.** Excess of Income over Expenditure Rs. 2,235 & Total of Balance Sheet Rs. 8.420.

**19.** The following particulars relate to the Delhi Sports Club :

(*i*) Income and Expenditure Account
for the year ended 31st December, 1971.

| | Rs. | | Rs. |
|---|---|---|---|
| To Salaries | 900 | By Entrance Fees | 6,300 |
| ,, Printing and Stationery | 1,320 | By Subscriptions | 9,360 |
| ,, Advertisement | 960 | By Rent | 2,400 |
| ,, Audit Fees | 300 | | |
| ,, Fire Insurance | 600 | | |
| ,, Depreciation on Sports Equipment | 5,400 | | |
| ,, Excess of Income over Expenditure | 8,580 | | |
| | 18,060 | | 18,060 |

(*ii*) Receipts and Payments Account
for the year ended 31st December, 1971.

| Receipts | Rs. | Payments | Rs. |
|---|---|---|---|
| To Balance b/d | 2,520 | By Salary | 600 |
| ,, Entrance fees | 6,300 | By Printing & Stationery | 1,560 |
| ,, Subscriptions : | | By Advertising | 960 |
| 1970 | 360 | By Fire Insurance | 720 |
| 1971 | 9,000 | By Investments | 12,000 |
| 1972 | 240 | By Balance c/d | 4,680 |
| To Rent Received | 2,100 | | |
| | 20,520 | | 20,520 |

(*iii*) The assets on 1st January, 1971 included club Grounds and Pavillion Rs. 26,400. Sports equipments Rs. 15,000 and Furniture and Fixtures Rs. 2.400. Subscriptions in arrears on that day were Rs. 480.

Prepare the Balance Sheet as on 31st December 1971.

**Ans.** Opening Balance Sheet Capital Fund Rs. 46 800 : Closing Balance Sheet Total Rs. 56,220.

**20.** From the following Receipts and Payments Account of a Cricket Club and the additional information. prepare an Income and Expenditure Account for the year ended on 31st December 1978 :

## RECEIPTS AND PAYMENTS ACCOUNT
*For the year ended 31st December 1978*

| | Rs. | | | Rs. |
|---|---|---|---|---|
| To Balance : Cash | 352 | By Crockery purchased | | 265 |
| Bank | 2,738 | ,, Maintenance | | 682 |
| ,, Fixed Deposit at 6% | 3,000 | ,, Match Expenses | | 1,324 |
| ,, Membership Subscription (including Rs. 600 for 1977) | 4,000 | ,, Salaries | | 1,100 |
| ,, Entrance Fees | 275 | ,, Conveyance | | 82 |
| ,, Donation | 501 | ,, Upkeep of lawn | | 424 |
| ,, Interest on Fixed Deposit | 90 | ,, Postage Stamps | | 105 |
| ,, Tournament Fund | 2,000 | ,, Purchase of Cricket goods | | 972 |
| ,, Sale of Crockery (Book value Rs. 120) | 200 | ,, Sundry Expenses | | 200 |
| | | ,, Investments | | 570 |
| | | ,, Tournament Expenses | | 1,880 |
| | | ,, Balance : | | |
| | | Cash | 220 | |
| | | Bank | 2,332 | |
| | | Fixed Deposit | 3,000 | 5,552 |
| | 13,156 | | | 13,156 |

**Information**—(*a*) Monthly Salary is Rs. 100 (*b*) The value of unused postage stamps is as follow : 31st Dec. 1977, Rs. 75 ; 31st Dec. 1978 Rs. 90, (*c*) Stock of Cricket equipment is as follows : 31s. Dec. 1977, Rs. 321 ; 31st Dec. 1978 Rs. 280. (*d*) Arrear of membership subscription : 1977 Rs. 660 : 1978 Rs 800. (*e*) Donation and Entrance Fees are not to be capitalised.

(*Delhi Senior School Certificate Exam. 1979*)

**Ans.** Opening Balance Sheet.—Capital Fund in the beginning Rs. 7,266, Excess of Income over Expenditure Rs. 221 & Total of Closing Balance Sheet Rs. 7,707.

**20.** From the following information and Receipts and Payments Account of Prince Club. prepare an Income and Expenditure Account for the year ending 31st December, 1979 and a Balance Sheet as on that date.

| Receipts | Rs. | Payments | Rs. |
|---|---|---|---|
| Balance b/d | 3,190 | Rent | 1,680 |
| Entrance Fees | 550 | Wages | 2,450 |
| Subscriptions | 18,000 | Lighting Charges | 720 |
| Donations | 1,650 | Books Purchases | 2,480 |
| Life Membership Fees | 2,500 | Office Expenses | 4,500 |
| Interest on Deposits | 240 | 8% Fixed Deposit (on 1st July, 1979) | 12,000 |
| Proceeds of Tournament | 2,320 | Tournament Expenses | 2,020 |
| | | Cash in hand | 2,600 |
| | 28,450 | | 28,450 |

**Other informations :**

On 31st December, 1978, the Club possessed books worth Rs. 20,000 and Furniture worth Rs. 8,500. Provide depreciation on these assets @ 10% including the purchases during the year.

Subscriptions in arrears at the beginning of the year amounted to Rs. 350 and at the end of the year Rs. 550 were outstanding.

The Club paid three month's rent in advance both in the beginning and at the end of the year.

*(S S.C All India 1980)*

**Ans.** Excess of Income over expenditure Rs, 8,732. Capital Fund in the beginning Rs. 32,460. Total of B. S. Rs. 43,692 (and Capital Fund at the end)

**21.** The following is the Receipts and Payments Account of the Bombay club for the year ended 31st December 1979.

| Recepits | Rs. | Payments | Rs. |
|---|---|---|---|
| To Balance b/d | 1,500 | By Rent | 26,000 |
| To Entrance Fees | 2,750 | By Stationery | 15,340 |
| To Subscriptions : | | By Wages | 26,650 |
| 1978 | 1,000 | By Billiards Table | 19,500 |
| 1979 | 84,500 | By Repairs | 4,030 |
| 1980 | 1,500 | By Miscellaneous Exp. | 7,500 |
| To Lockers' Rent | 2,500 | By Balance c/d | 11,980 |
| To Special Subscription for Governer's Party | 17,250 | | |
| | 1,11,000 | | 1,11,000 |

The following adjustment are to be made :

Lockers' Rent include Rs. 300 for 1978 and Rs. 550 is still owing.

Subscription unpaid for 1979 were Rs. 2,400 and Rs. 260 for stationery were outstanding.

Entrance fee is to be capitalised.

From the above information you and required to make out an Income and Expenditure Account for the year ended on 31st December 1979 and a Balance Sheet as on that date. The club's other assets on 1-1-79 were Rs. 39,000

*(S.S.C. Delhi 1980 Comptt)*

**22.** From the following Trial Balance of Mr. A prepere Trading and Profit and Loss Account for the year ended 31st December 1979 and a Balance Sheet as on that date :

TRIAL BALANCE

| Debit Balance | Rs. | Credit Balance | Rs. |
|---|---|---|---|
| Drawings | 5,275 | Capital | 59,700 |
| Bills Receivable | 4,750 | Loan at 8% (on 1-1-79) | 10,000 |
| Machinery | 14,500 | Commission Recd. | 2,820 |
| Debtors (including X for dishonoured Bill of Rs. 1,000) | 30,000 | Creditors | 29,815 |
| Wages | 20,485 | Sales | 1,78,215 |
| Returns inward | 2,390 | | |
| Purchases | 1,28,295 | | |
| Rent | 2,810 | | |
| Stock (1-1-79) | 44,840 | | |
| Salaries | 5,500 | | |
| Travelling Expenses | 945 | | |
| Insurance | 200 | | |
| Cash | 9,750 | | |
| Repairs | 1,685 | | |
| Interest of Loan | 500 | | |
| Discount Allowed | 2,435 | | |
| Bad Debts | 1,810 | | |
| Furniture | 4,480 | | |
| | 2,80,550 | | 2,80,550 |

The following adjustments are to be made :

(*i*) Stock in the shop on 31st Dec., 1979 was Rs. 64,480.

(*ii*) Half the amount of X's Bill is irrecoverable.

(*iii*) Create a provision of 5% on other debtors.

(*iv*) Wages include Rs. 600 for erection of new machinery.

(*v*) Depreciate Machinery by 5% and Furniture by 10%.

(*vi*) Commission include Rs. 300 being Commission received in advance.

*(S.S.C. All India 1980)*

**Ans.** Gross Profit Rs. 47,285 ; Net Profit Rs. 30,472 and Total of Balance Sheet Rs. 1,25,312

## 20
# SINGLE ENTRY SYSTEM

Which system of accountancy should be used in a business depends upon its requirements. Generally, businessmen use double entry system of book-keeping in which debit and credit aspects of the transactions are recorded. But those institutions which are not established with the purpose of earning profit and in which cash transactions are large in number, they maintain their accounts on Cash System. For example, charitable institutions, institutions that encourage art and culture, literary institutions. Some institutions use a mixed system which is called Composite or Hybrid System.

**Single Entry System**—Some scholars have defined single entry system as follows :

1. **J.R. Batliboi**—The term Single Entry is applied to a style of Book-keeping under which only the Personal Accounts of the debtors and creditors of the trader are kept. The usual Subsidiary Books are sometimes kept in just the same way as in Double Entry System but the postings are made therefrom of such entries only as relate to Personal Accounts. In fact Single Entry System is not any particular system of Book-keeping, but rather the Double Entry System in an incomplete and disjointed form.

Main characteristic of Single Entry System is that only Personal Accounts are opened in the ledger and even when subsidiary books are maintained the posting is done in Personal Accounts only. Real and Nominal accounts are not opened.

In this system sometimes both the aspects, debit as well as credit, of some transaction are recorded and sometimes only one aspect is recorded. For example, when Cash is received from some one it is recorded in his personal account and also in the cash account. But when a machine is purchased for cash it is entered only in Cash A/c and not in Machine A/c. Thus, unlike Double Entry System equal importance is not given on debit and credit aspects of every transaction Credit transactions are also recorded through Personal Accounts.

**Advantages of Single Entry System**—Following are the main advantages of Single Entry System :

(1) **Cash transactions**—This is found more suitable where the number of cash transactions and Personal accounts are more.

(2) **Small Trades**—In small trades, where large amount cannot be spent on maintaining accounts, this method is generally used.

(3) **To deceive Income-tax Authorities**—Sometimes, this system is used to deceive the income-tax authorities. Full details are not available in this system, so they underestimate the income.

(4) **To avoid complication of Double Entry System** - If a trader does not have complete knowledge of Double Entry System he can, in order to avoid complications of Double Entry System, follows the Single Entry System.

(5) **To avoid double entry of all the Transactions**—This system is thought to be convenient where the businessman does not want to keep a record of both the aspects of all the transactions.

**Disadvantages** - Following are the defects of Single Entry System :

(1) **Not possible to prepare Trial Balance** - Only Personal accounts are opened in this system. So it is not possible to prepare a Trial balance and check the accuracy of accounts.

(2) **Difficult to prepare Final Accounts** Under this system difficulty is faced in preparing Trading A/c. Profit and Loss A/c and Balance Sheet. If at all they are prepared their accuracy is always doubtful.

(3) **Incomplete and Unscientific** —This system is incomplete and unscientific because both the aspects, debit and credit of a transaction are not recorded.

(4) **Impossible to compare with last year's Accounts**—In this system accounts of the current year cannot be compared with those of the previous year because only Personal A/c are kept under this system which do not provide complete information.

(5) **No Control on Assets** - Assets A/c are not prepared under this system. Therefore, it is not possible to keep control on assets.

(6) **Not recognised by Tax authorities** This system does not reveal the true profit of the business. Therefore, it is not acceptable by income-tax authorities.

(7) **Internal check not possible**—As there is no system of internal check in this method, there is always a possibillty of fraud and misappropriation.

(8) **Does not reveal Net-profit or Net loss** Purchases Account, Sales A/c, Returns Inwards A/c. Returns Outwards A/c are not prepared under this system. Therefore, we cannot find out the correct profit or loss.

(9) **No knowledge of the Present value of the Business** —It is not possible to know the present value of the whole business. Therefore, one has to face many difficulties if the business is to be disposed off.

**Preparation of Statement of Affairs**

Double entry of all the transactions is not made under Single Entry System. Hence it is not possible to prepare a Balance Sheet.

Therefore, those businessmen who maintain their accounts under Single Entry System prepare a Statement of Affairs to know their financial position. It is prepared in the same manner in which the Balance Sheet is prepared. On the one side Assets are shown and on the other side Liabilities are shown.

**Important Points while preparing Statement of Affairs**

Following points should be kept in mind while preparing a Statement of Affairs :

(1) First of all balance of the Cash Book should be checked with the actual Cash in hand.

(2) Balance of the bank column of the Cash Book should be checked with that of the Pass Book.

(3) Lists of the Sundry Debtors and Sundry Creditors should be prepared.

(4) Assets like Building, Furniture, Machinery etc. should be properly valued and a reasonable depreciation should be provided for them.

(5) Closing stock at the end of the year should be valued.

(6) Outstanding expenses should be added to the expenses of the current year and prepaid expenses should be deducted.

(7) Income accrued but not received should be added to the income of the current year and income received in advance should be deducted from the income of the current year.

(8) While preparing Statement of Affairs, expenses paid in advance and income accrued but not received should be shown on the assets side and outstanding expeneses and income received in advance should be shown on the liabilities side.

In the above statement excess of assets over liabilities will show the capital.

**Calculation of Profit Under Single Entry System**

It has already been mentioned that in Double Entry System profit is calcuated by preparing Trading A/c and Profit and Loss A/c. But it is not possible to prepare these accounts under Single Entry System. Therefore, following procedure is followed to find out the profit :

(1) First of all Statement of Affair in the beginning of the year should be prepared to find out the opening capital.

(Assets – Liabilities = Capital)

(2) Capital at the end of the year should be found out by preparing Statement of Affairs at the end of the year.

(3) Drawings should be added to the capital at the end of the year and further capital invested should be deducted out of it.

(4) Now the capital at the beginning of the year and at the close of the year should be compared. If the capital at the end of

the year is more than the capital in the beginning, the result is profit and *vice versa*. Thus—

Profit or Loss=Capital at the end+Drawings
—Fresh Capital introduced during the year
– Capital in the beginning.

**Illustration 20-1**

Suresh maintains books on Single Entry. He gives the following information :

| | |
|---|---|
| Capital on Ist January 1980 | 15,200 |
| Capital on Ist January 1981 | 16,900 |
| Drawings made during the period January 1980 to January 1981 | 4,800 |
| Capital introduced on Ist August 1980 | 1,500 |

You are required to calculate profit or loss made by Suresh.

**Solution**

| | |
|---|---|
| Capital as on Ist January 1981 | 16,900 |
| *Add* Drawings made during the year | 4,800 |
| | 21,700 |
| *Less* Capital introduced on Ist August 1980 | 1,500 |
| | 20,200 |
| *Less* Capital on Ist January 1980 | 15,200 |
| Profit made during the year | 5,000 |

**Illustration 20-2**

Mr. A keeps his books by Single Entry. His position on 1st Jan. 1979 was as follows :—

Cash in hand Rs. 250 ; Cash at Bank Rs. 1,000 ; Debtors Rs. 2,000 ; Stock Rs. 2,500 ; Furniture Rs. 750 ; Plant and Machinery Rs. 3,000 ; Creditors Rs. 1,500.

His position on 31st December 1979 was as follows :—

Cash Rs. 300 , Debtors Rs. 3,000 , Stock Rs. 3,500 , Furniture Rs 1,000 , Plant and Machinery Rs. 4,500 , Creditors Rs. 2,000 , Bank Overdraft Rs. 500.

During the year he withdrew Rs. 450 for his domestic expenses and introduced Rs. 750 as fresh Capital.

Prepare the Statement of Affairs and ascertain his profit or loss for the year.

**Solution**

STATEMENT OF AFFAIRS
*As on 1st Jan. 1979*

| | Rs. | | Rs. |
|---|---|---|---|
| Creditors | 1,500 | Cash in hand | 250 |
| Capital (Balanced) | 8,000 | Cash at bank | 1,000 |
| | | Debtors | 2,000 |
| | | Stock | 2,500 |
| | | Furniture | 750 |
| | | Plant & Machinery | 3,000 |
| | 9,500 | | 9,500 |

STATEMENT OF AFFAIRS
*As on 31st December, 1979*

| | | | |
|---|---|---|---|
| Creditors | 2,000 | Cash in hand | 300 |
| Bank Overdraft | 500 | Debtors | 3,000 |
| Capital (Balanced) | 9,800 | Stock | 3,500 |
| | | Furniture | 1,000 |
| | | Plant and Machinery | 4,500 |
| | 12,300 | | 12,300 |

Statement of Profit or Loss for the year ended 31st December, 1979.

| | |
|---|---|
| Capital on 31st December, 1979 | 9,800 |
| *Less* : Capital on 1st January, 1979 | 8,000 |
| | 1,800 |
| *Add* : Drawings | 450 |
| | 2,250 |
| *Less* : Capital introduced during the year | 750 |
| Net profit | 1,500 |

**Adjustments**—Along with information about Statement of Affairs there are some adjustments also in the question. For example, interest on Capital, interest on Drawings, Depreciation, Bad debts, Reserve etc. Statement of Affairs at the end of the year should be prepared without taking into account these adjustments. These adjustments should be taken into account while preparing statement of Profit and Loss.

**Illustration 20-3**

On 1st January, 1979, the position of a retail trader, Shri Ram Kumar, who does not keep full double entry records stcod as follows :

Cash in hand Rs. 300, Cash at Bank Rs. 5,500, Stock Rs. 5,600, Debtors Rs. 3,457, Furniture Rs. 200, S. Creditors Rs. 4,057.

His position at the end of 1979 was Cash in hand Rs. 380, Cash at Bank Rs. 2,400, Stock Rs. 4,680 : Sundry Debtors Rs. 4,620 Furniture Rs. 250, Sundry Creditors Rs. 3,000.

During the year he had withdrawn from the business Rs. 6,500 of which Rs. 5,600 was spent in purchasing a Motor Van for the business.

Prepare a statement showing his trading result for the year ending 31st December and a Balance Sheet as on that date after :—

(*i*) Providing 10% depreciation on Furniture and Motor Van.

(*ii*) Write off Rs. 120 for Bad Debts.

(*iii*) Making a 5% reserve for likely bad debts.

**Solution**

STATEMENT OF AFFAIRS
*As on 1st January, 1979*

| | Rs. | | Rs. |
|---|---|---|---|
| Creditors | 4,057 | Cash in hand | 300 |
| Capital (Balancing figure) | 11,000 | Cash at Bank | 5,500 |
| | | Stock | 5,600 |
| | | Debtors | 3,457 |
| | | Furniture | 200 |
| | 15,057 | | 15,057 |

STATEMENT OF AFFAIRS
*As on 31st December, 1979*

| | | | |
|---|---|---|---|
| Creditors | 3,000 | Cash in hand | 380 |
| Capital (Balancing figure) | 14,930 | Cash at Bank | 2,400 |
| | | Stock | 4,680 |
| | | Debtors | 4,620 |
| | | Furniture | 250 |
| | | Motor Van | 5,600 |
| | 17,930 | | 17,930 |

STATEMENT OF PROFIT
*For the year ending 31st December, 1979*

| | Rs. |
|---|---|
| Capital at the end of the year | 14,930 |
| *Add* : Drawings (Rs. 6,500 −5,600) | 900 |
| | 15,830 |

| | Rs. | |
|---|---|---|
| *Less* | | |
| Opening Capital | 11,000 | |
| Depreciation on Furniture | 25 | |
| Depreciation on Motor Van | 560 | |
| Bad Debts | 120 | |
| Reserve for Bad Debts | 225 | 11,930 |
| Net Profit | | 3,900 |

**Working Note.** Debtors Rs. 4,620 Bad Debts Rs. 120=Rs. 4,500

Reserve for Bad Debts on Rs. 4,500 @ 5%=$4{,}500 \times \frac{5}{100}$=Rs. 225

**Balance Sheet of Sh. Ram Kumar**

*As on 31st December, 1979*

| | | Rs. | | | Rs. |
|---|---|---|---|---|---|
| Creditors | | 3,000 | Cash in hand | | 380 |
| Capital (on 1-1-1979) | 11,000 | | Cash at Bank | | 2,400 |
| *Add* : Net Profit | 3,900 | | Stock | | 4,680 |
| | 14,900 | | Furniture | 250 | |
| *Less* : Drawings | 900 | 14,000 | *Less* : Depreciation | 25 | 225 |
| | | | Debtors (4,620−120) | 4,500 | |
| | | | *Less* : Reserve | 225 | 4,275 |
| | | | Motor Van | 5,600 | |
| | | | *Less* : Depreciation | 560 | 5,040 |
| | | 17,000 | | | 17,000 |

**Calculation of Profit or Loss for Partnership Firms**

Method of calculation of profit or loss in partnership firms is the same as in case of a sole trader. In partnership firm Capital of all the partners are shown jointly and after finding out profit or loss adjustments are made for interest on capital, partner's salaries, reserve for discount, expenses paid in advance, outstanding expenses etc.

**Standard Questions**

1. What do you understand by Single Entry System of Book-keeping ? What are its disadvantages ?
2. How can you ascertain profit made during any trading period when books are kept under Single Entry ?
3. Write short notes on Single Entry.

**Practical**

1. The information of an accounting year is given below :

   Opening Capital Rs. 60,000 ; Drawings Rs. 5,000 : Capital added during the year Rs. 10,000 and Closing capital Rs. 90,000. Calculate Profit and loss for the year.

   **Ans.** Profit Rs. 25,000. *(All India H. S. 1976)*

2. *X* Started his business on 1st January, 1978 with a capital of Rs. 7,000 and loan from his wife Rs. 2,000. He kept his books under Single Entry System, on the close of 31st December, 1978 he had the following Assets and Liabilities :

   Cash in hand Rs. 190, Cash at Bank Rs. 2,260, Sundry Debtors Rs. 6,950 , Stock in trade Rs. 12,000 , Fixtures Rs. 500 , Liabilities for expense Rs. 1,000 , Sundry Creditors Rs. 4,500.

   Prepare a Statement of Profit or Loss for the year, 1978 assuring *X* had withdrawn Rs. 3,000 for his family expenses during the year.

   **Ans.** Opening capital Rs. 7,000 ; Closing Capital Rs. 14,400 Profit Rs. 10,400.

3. Kuldeep maintains his books of accounts on 'Single Entry System'. His books provide the following information ,

| | Jan. 1, 1978<br>Rs. | Dec. 31, 1978<br>Rs. |
|---|---|---|
| Furniture | 200 | 200 |
| Stock | 2,800 | 3,800 |
| Debtors | 2,100 | 3,400 |
| Cash | 150 | 200 |
| Creditors | 1,750 | 1,900 |
| Bills Receivable | -- | 300 |
| Loans | -- | 500 |
| Investments | -- | 1,000 |

   His drawings during the year were Rs. 500.

   Prepare the statement showing profit for the year.

   **Ans.** Profit Rs. 3,500

   *[Delhi Senior School Certificate Exam. 1979* (c)]

4. Kamal keeps the books under Single Entry System. Below are given two sets of figures one on 1st April, 1977 and the other on 31st March, 1978.

On 1st April, 1977 his assets and liabilities were as follows :— Plant Rs. 15,000 ; Stock Rs. 10,000 ; Debtors Rs. 8,500 and Cash at Bank Rs. 4,500. His liabilities were Sundry Creditors Rs. 6,500.

On 31st March, 1978 his books revealed the following position :

Plant Rs. 18,000 ; Stock Rs. 15,000 ; Debtors Rs. 10,000 and Cash at Bank Rs. 5,000. His liabilities were Sundry Creditors Rs. 7,500.

During the year Kamal withdrew from the business an aggregate sum of Rs. 4,000.

You are required to prepare a Statement of Profit or Loss for the year ended 31st March, 1978 and a Statement of Affairs as at that time.

Ans. Opening Capital Rs. 31,500 , Closing Capital Rs. 40,500 Profit Rs. 13,000.

5. S. Kumar keeps his books by Single Entry. His position on 1st Jan. 1979 was as follows :—

| | |
|---|---|
| Stock in Trade | 12,570 |
| Cash in hand | 190 |
| Cash at bank | 2,100 |
| Machinery | 5,060 |
| Sundry Debtors | 2,800 |
| Sundry Creditors | 5,020 |

During the year ended 31st December, 1979, S. Kumar withdrew from the business for his household expenses Rs. 2,030 and introduced Rs. 1,009 as fresh cash capital.

His position on 31st December, 1979 was as follows :

| | Rs. |
|---|---|
| Stock in Trade | 13,100 |
| Cash in hand | 250 |
| Cash at Bank | 1,090 |
| Machinery | 5,260 |
| Sundry Debtors | 3,910 |
| Sundry Creditors | 4,010 |

Prepare statement to show Profit or Loss for the year ended 31st December, 1979.

Ans. Profit Rs. 2,930 , Capital as on 1-1-79 Rs. 17,700, Capital as on 31-12-79 Rs. 19,600.

6. *A* started his business on 1st January with a capital of Rs. 40,000. On 31st December his position was; Creditors Rs. 4,700 Machinery Rs. 40,000, Furniture Rs. 2,000 ; Debtors Rs. 1,300 Cash Rs. 15,000.

Find out *A*'s profit or loss taking into account his drawings @ Rs. 200, per month and Rs. 1,000 which he brought on 1st October in the business as further capital.

**Ans.** Profit Rs. 15,000.

7. Sukhmal started a firm on 1st January 1979 with a capital of Rs. 10,000. On 1st April 1979, he borrowed from his wife a sum of Rs. 4,000. On 31st December 1979 his position was : Cash Rs. 600, Stock Rs. 9,400, Debtors Rs. 7,000 and Creditors Rs. 6,000.

Ascertain his profit or Loss taking into account Rs. 2,000 for his drawings during the year.

**Ans.** Loss Rs. 1,000.

8. A trader keeps his books by Single Entry. His position was as follows :

| | 1-1-1979 Rs. | 31-12-1979 Rs. |
|---|---|---|
| Sundry Creditors | 2,000 | 2,130 |
| Cash | 200 | 250 |
| Sundry Debtors | 2,500 | 4,000 |
| Stock | 3,100 | 5,200 |
| Furniture | 500 | 500 |
| Bills Payable | — | 370 |
| Loan | — | 1,000 |
| Investment | — | 2,000 |

During the year he withdrew from the business for his private expenses Rs. 1,000 and introduced Rs. 500 as fresh capital. Provide 10% for Bad Debts on debtors and charge 10% depreciation on furniture.

Prepare statement to show profit or loss for the year.

**Ans.** Profit Rs. 4,200, Capital as on 1-1-79 Rs. 4,300, Capital as on 31-12-79 Rs. 8,000 (After adjustments)

9. Ram Prakash keeps his books by the Single Entry method. His position on 1st January 1979 was as follows :

Cash in hand Rs. 200, Cash at Bank Rs. 3,000, Stock in trade Rs. 20,000, Sundry Debtors Rs. 8,500, Fixtures and Fittings Rs. 1,800, Machinery and Plant Rs. 15,000, Sundry Creditors Rs. 22,000. During the year Ram Prakash introduced Rs. 5,000 as further Capital in the business and withdrew Rs. 750 per month.

On 31st December 1979 his position was as follows :

Cash in hand Rs. 300, Cash at Bank Rs. 2,000, Sundry Debtors Rs. 14,000, Stock-in-Trade Rs. 19,000, Plant and Machinery Rs 27,000, Fixture and Fittings Rs. 1,500, Sundry Creditors Rs. 29,000.

From the above, prepare a statement showing the profit or loss made by him for the year ended 31st December 1979.

**Ans.** Profit Rs. 12,300, Capital as on 1-1-1979 Rs. 26,500, Capital as on 31-12-1979 Rs. 34,800.

10. Marohar Lal keeps his books by the Single Entry method. His position on 31st December 1978 was as follows :

Cash in hand Rs. 500 , Cash at Bank Rs. 6,000 , Stock Rs. 5,000 , Debtors Rs. 3,300 , Furniture Rs. 1,200 , Creditors Rs. 4,000. During the year ManoharLal introduced Rs. 4,000 as further capital in the business, and withdrew Rs. 9,000 out of which he spent Rs. 6,000 on the purchase of machine for the business.

On 31st December 1979, his position was as follows :

Cash in hand Rs. 500 , Cash at bank Rs. 5,000 : Stock Rs. 6,000 , Debtors Rs. 4,6 0 , Furniture Rs. 1,500 , and Creditors Rs. 6,000.

Prepare necessary statements showing the profit or loss made by him during the year and a Balance Sheet as at 31st Dec., 1979 after making the following adjustments.

Depreciate Furniture and Machine at 10%, write off bad debts Rs. 200 and provide 5% for doubtful debts.

**Ans** Profit Rs. 3,430 , Capital as on 31-12-1978 Rs 12,000 Capital as on 31-12-1979 Rs. 16,430. (After Adjustments.)

11. A retail trader has not kept proper books of account but from the following details you are required to ascertain the profit or loss for the year ended 31st December, 1978 and also prepare a statement of affairs as on that date.

| | *January 1, 1978* Rs. | *December 31, 1978* Rs. |
|---|---|---|
| Stock in Trade | 16,700 | 18,500 |
| Sundry Creditors | 15,400 | 14,000 |
| Sundry Debtors | 11,200 | 10,500 |
| Cash in hand | 250 | 1,200 |
| Bank Overdraft | 20,200 | 19,400 |
| Bills Receivable | 15,050 | 14,200 |
| Fixture and Fittings | 1,500 | 1,500 |
| Motor Lorry | 1,900 | 1,900 |

His drawings during the year amounted to Rs. 2,600. Depreciate Fixtures by 10% and write Rs. 300 off Motor Lorry. As regards Debtors it is ascertained that Rs. 500 are irrecoverable and a further reserve of 5% should be made.

**Ans**. Profit Rs. 4,550 , Capital as on 1-1-1978 Rs. 11,000 , Capital as on 31-12-1978 Rs. 12,950. (After Adjustments)

12. Sandip Kumar commenced business on 1st January, 1979 with a Capital of Rs. 30,000. He immediately bought Furniture for Rs. 6,000. During the year he borrowed Rs. 15,000 from his wife and introduced a further Capital of his own amounting to Rs. 9,500. He had withdrawn Rs. 900 at the end of each month for family expenses. On 31st December, 1979 his position was as follows :

Cash in hand Rs, 600 , Cash at Bank Rs. 7,800 , Sundry Debtors 14,400 , Stock Rs. 20,400 , Bills Receivable Rs. 4,800 Sundry Creditors Rs. 1,500 , Rent due Rs. 450, Furniture to be depreciated by 10%.

Ascertain the profit or loss made by Sandeep Kumar during 1979.

**Ans.** Closing Capital Rs. 36,450 , Profit Rs. 7,750.

**13.** Pradip commenced business on 1st July, 1979 with a Capital of Rs. 20,000. During the year ended 30th June. 1980 he borrowed Rs. 5,000 from Mr. Amar and introduced a further Capital of Rs. 2,000. Furniture worth Rs. 3,000 was purchased. He had drawn from the business a sum of Rs. 3,000 during the year on 30th June 1980 his position was as follows : Cash in hand Rs. 450 , Cash at Bank Rs. 2,500 , Sundry Debtors Rs. 4,050, Bills Receivable Rs. 1,800 Sundry Creditors. Rs. 750 , Stock Rs. 7,000 Furniture is to be depreciated by 10%.

Ascertain the Profit or Loss made by Pradip during the year ended 30th June 1980.

**Ans.** Closing Capital Rs. 12,750 , (After adjustments)
Loss suffered during the year Rs. 6,250.

**14.** *X* tells you that his capital on 31st December, 1977 is Rs. 18,700 and his capital on 1st January was Rs. 19,200. He further informs you that during the year he gave loan of Rs. 3,500 to his brother on private account and withdrew Rs. 300 p.m. for personal purposes. He also used a flat for his personal purposes, the rent of which at the rate of Rs. 100 p. m. and electricity charges at an average of Rs.10 p.m. were paid from the business account. He once sold his $7\frac{1}{2}\%$ Government Bond Rs. 2,000 at 2% premium and brought that money into the business. Besides this, there is no other information.

You are required to prepare a statement of profit.

**Ans.** Net Profit Rs. 5,880.

**Working Note** – Capital introduced during the year

$$\frac{102}{100} \times 2{,}000 = 2{,}040$$

# 21
# CONVERSION OF SINGLE ENTRY TO DOUBLE ENTRY

If a businessman, who keeps his accounts according to Single Entry System, wants to convert it into Double Entry System in future, he has to follow the following procedure :

First of all, he should prepare a 'Statement of Affairs' in the beginning of the year. In this connection he should tally the balances of his creditors and debtors with the ledger balances, his Cash Book balance with actual cash in hand, his bank balance with the Pass Book. Then he should prepare an account of his Assets and liabilities in the following manner and post them in proper accounts.

**Conversion of books of last year from Single Entry to Double Entry**

When a businessman wants to convert his accounts of 1980 based on Single Entry system into Double Entry System from January 1, 1981 he will have to adopt the following precedure :

(1) First of all he has to prepare an opening Statement of Affairs on the first day of the year *i.e.* on 1st January, 1981.

(2) After this with the help of Cash Book he has to open all the Personal, Real and Nominal accounts in the ledger.

(3) If a discount column has been provided in the Cash Book, then a Discount Account should also be opened and necessary posting done in it.

(4) Then Personal Accounts should be checked and noted if there is an amount written in a personal Account, which should have gone to a Real Account or a Nominal Account. It should also be noted that there is no such amount in Personal accounts which is not available in the subsidiary books.

(5) After this subsidiary books should be checked. First of all the total should be checked and then these total should be posted to their respective accounts. For example, total of the Purchases Book should be posted to Purchases Account and total of the Sales Book to the Sales Account. Then the Trial Balance should be prepared to check the posting. After this Trading Account, Profit and Loss Account and the Balance Sheet should be prepared.

When on the basis of invoices and other documents entries are made in Debtors and Creditors accounts, other necessary accounts are also prepared from Purchases, Sales, and Return Books.

**Important points**

The following points should be kept in mind while solving problems :

(1) *To Find out Opening Capital*—First of all the Statement of Affairs in the beginning of the year should be prepared to find out opening capital.

(2) *Cash and Bank Balances*—Cash and Bank Balances should be found out on the basis of the information given in the question.

(3) *Credit Sales*—Balance of the Total Debtors Account shows the amount of Credit Sales. Therefore, total Debtors Account should be prepared to find out Credit Sales.

**TOTAL DEBTOR'S ACCOUNT**

| | Rs. | | Rs. |
|---|---|---|---|
| To Opening Balance | | By B/R | |
| ,, Sales (Credit) | | ,, Cash received from customers | |
| ,, B.R. Dishonoured | | ,, Discount allowed | |
| ,, Interest and expenses charged | | ,, Bad Debts | |
| ,, Transfer (if any) | | ,, Sales Returns | |
| | | ,, Allowances | |
| | | ,, Transfer (if any) | |
| | | ,, Closing Balance | |

(4) *Credit Purchases*—Balance of the Total Creditor's Account shows the amount of credit purchases. Therefore, Total Creditor's Account should be prepared to find out credit Sale.

**TOTAL CREDITOR'S ACCOUNT**

| | Rs. | | Rs. |
|---|---|---|---|
| To B. P. | | By Opening Balance | |
| ,, Cash paid to Customers | | ,, Purchases | |
| ,, Discount received | | ,, B.P. Dishonoured | |
| ,, Allowances | | ,, Interest and Expenses | |
| ,, Purchase Returns | | ,, Renewal B.P. | |
| ,, Transfer (if any) | | ,, Transfer (if any) | |
| ,, Closing Balance | | | |

(5) *Creditors and Debtors*—If opening balances of creditors and Debtors are not given they can be found out by preparing accounts.

(6) *Bills Receivable and Bills Payable Account*—Balances of Bills Receivable and Bills Payable can be ascertained by preparing these accounts.

BILLS RECEIVABLE ACCOUNT

| | Rs. | | Rs. |
|---|---|---|---|
| To Opening Balance | | By Cash received on B/R<br>By Debtors (B.P. dishonoured)<br>By Closing Balance | |

BILLS PAYABLE ACCOUNT

| | Rs. | | Rs. |
|---|---|---|---|
| To Cash paid on B/P<br>,, Creditors (B.P. dishonoured)<br>To Closing Balance | | By Opening Balance<br>,, Creditors (B.P. accepted) | |

(7) *Opening and Closing Stock*—Sometimes opening and closing balances of the stock are not given. Instead of it, purchases, sales and a percentage of profit are given. In such a situation following method should be adopted while solving problems :

$$(i)\ \text{Cost of Sales} = \frac{\text{Total Sales}}{100+\text{Percentage of Profit}}$$

After finding out the cost of sales the opening stock can be found out by the following methods :

Opening Stock=Cost of sales+Closing Stock—Purchases.

(*ii*) Sometimes percentage of profit is given on sales price.

Following formula should be adopted in such a case :

$$\text{Cost of sales} = \frac{(100\text{—Percentage of profit})}{100} \times \text{Total Sales}$$

Then the Opening Stock can be found out as mentioned above.

(*iii*) *Closing Stock*—When in the question Opening Stock, Total Purchases, Total Sales, cost price or percentage of profit on sales are given, the closing stock can be easily found out. First of all, we should find out the value of the opening stock and then take the help of the following formula to find out the value of closing stock :

Closing Stock=(Opening Stock+Total Purchases Cast of Sales).

For converting Single Entry System into Double Entry System generally four types of problems are given :

(*i*) When the trader has prepared only Personal Accounts.

(*ii*) When the trader has prepared Subsidiary Books also.

(*iii*) When the trader has kept a Cash Book also along with the subsidiary Books.

(*iv*) When the trader has kept a Cash Book only.

**Illustration 21-1**

From the details given below prepare Total debtors account and Total creditors account and find out credit sales and credit purchases and Total sales and Total purchases :

| | | Rs. |
|---|---|---|
| 1. | Opening Balance of Debtors | 15,000 |
| 2. | Opening Balance of Creditors | 14,000 |
| 3. | Closing Balance of Debtors | 3,000 |
| 4. | Closing Balance of Creditors | 5,000 |
| 5. | Bills received during the year | 10,000 |
| 6. | Bills accepted during the year | 8,000 |
| 7. | Cash received from customers | 30,000 |
| 8. | Cash returned to customers | 500 |
| 9. | Cash paid to suppliers | 20,700 |
| 10. | Discount allowed by suppliers | 270 |
| 11. | Discount allowed to customers | 150 |
| 12. | Bad Debts written off | 1,200 |
| 13. | Bad Debts recovered | 300 |
| 14. | Bills receivable endorsed to creditors | 4,000 |
| 15. | Bills receivable dishonoured by customers | 1,000 |
| 16. | Endorsed bills receivable dishonoured | 500 |
| 17. | Bills receivable discounted | 2,000 |
| 18. | Discounted bills receivable dishonoured | 700 |
| 19. | Sales returns | 1,600 |
| 20. | Purchases returns | 1,200 |
| 21. | Cash Sales | 20,000 |
| 22. | Cash Purchases. | 30,000 |

**Solution**

TOTAL DEBTORS ACCOUNT

| | Rs. | | Rs. |
|---|---|---|---|
| To Balance b/d | 15,000 | By Bills Receivable | 10,000 |
| ,, Cash returned | 500 | ,, Cash | 30,000 |
| ,, B/R (dishonoured) | 1,000 | ,, Discount | 150 |
| ,, Creditors | 500 | ,, Bad Debts | 1,200 |
| ,, Bank | 700 | ,, Sales Returns | 1,600 |
| ,, Credit sales (balancing figure) | 28,250 | ,, Balance c/d | 3,000 |
| | 45,950 | | 45,950 |

TOTAL CREDITORS ACCOUNT

| | Rs. | | Rs. |
|---|---|---|---|
| To Bills Payable | 8,000 | By Balance b/d | 14,000 |
| To Cash | 20,700 | By Debtors (bills endorsed and dishonoured) | 500 |
| To Discount | 270 | By Purchases (balancing figure) | 24,670 |
| To Bills Receivable (endorsed) | 4,000 | | |
| To Purchases Returns | 1,200 | | |
| To Balance c/d | 5,000 | | |
| | 39,170 | | 39,170 |

| *Total Sales* | | *Total Purchases* | |
|---|---|---|---|
| Cash Sales | 20,000 | Cash Purchases | 30,000 |
| +Credit Sales | 28,250 | +Credit Purchases | 24.670 |
| | 48,250 | | 54,670 |

**Illustration 21-2**

A trader has adopted Single Entry System of Book keeping. The following facts relating to his business are available for the year 1979 :

(*i*) The summary of his **Cash Book :**

Cash paid into Bank Rs. 8,690 ; Dividends received in Cash Rs. 200 ; Drawings in Cash Rs. 445 and out of Bank Rs. 750 ; Cash received from Debtors Rs. 11,700 ; Payments to Creditors by cheque Rs. 7,750 and by cash Rs. 200 ; Wages Rs. 1,500 and Sundry Expenses Rs. 1,075 paid in Cash ; Bank interest received Rs. 10.

(*ii*) His assets and liabilities were :—

| | *On 1st Jan., 1978* | *On 31st Dec., 1978* |
|---|---|---|
| | Rs. | Rs. |
| Stock | 600 | 750 |
| Bank Balance | 800 | 1,000 |
| Cash in hand | 30 | 20 |
| Debtors | 750 | 1,050 |
| Creditors | 1,200 | 1,400 |
| Investments | 3,000 | 3,000 |

From the above information prepare his Cash Book and Profit and Loss Account for the year ended 31st December 1978 and his Balance Sheet as on that date, bearing in mind that Sundry Expenses amounting to Rs. 120 were outstanding at the end of the year.

**Solution**

1. Calculation of Credit Purchases :

| | |
|---|---|
| Payment to Creditors (7,750+200) | 7,950 |
| +Closing Creditors | 1,400 |
| | 9,350 |
| —Opening Creditors | 1,200 |
| Credit Purchases for the year | 8,150 |

2. Calculation of Credit Sales :

| | |
|---|---|
| Cash received from Debtors | 11,700 |
| +Closing Debtors | 1,050 |
| | 12,750 |
| —Opening Debtors | 750 |
| Credit Sales for the year | 12,000 |

3. Calculation of Capital on 1st Jan. 1978.

STATEMENT OF AFFAIRS on 1-1-78

| | Rs. | | Rs. |
|---|---|---|---|
| Creditors | 1,200 | Stock | 600 |
| Capital (Balancing figure) | 3,980 | Bank Balance | 800 |
| | | Cash in hand | 30 |
| | | Debtors | 750 |
| | | Investments | 3,000 |
| | 5,180 | | 5,180 |

CASH BOOK for 1978

| Particulars | Cash Rs. | Bank Rs. | Particulars | Cash Rs. | Bank Rs. |
|---|---|---|---|---|---|
| To Balance b/d | 30 | 800 | By Drawings | 445 | 750 |
| ,, Cash | | 8,690 | ,, Bank | 8,690 | |
| ,, Dividend | 200 | | ,, Creditors | 200 | 7,750 |
| ,, Sundry Debtors | 11,700 | | ,, Wages | 1,500 | |
| ,, Bank Interest | | 10 | ,, Sundry Expenses | 1,075 | |
| | | | ,, Balance c/d | 20 | 1,000 |
| | 11,930 | 9,500 | | 11,930 | 9,500 |
| To Balance b/d | 20 | 1,000 | | | |

**TRADING & PROFIT & LOSS ACCOUNT**
*For the year ended 31st Dec. 1978*

| | Rs. | | Rs. |
|---|---|---|---|
| To Opening Stock | 600 | By Sales | 12,000 |
| ,, Purchases | 8,150 | ,, Closing Stock | 750 |
| ,, Wages | 1,500 | | |
| ,, Gross Profit c/d | 2,500 | | |
| | 12,750 | | 12,750 |
| ,, Sundry Expenses | 1,195 | By Gross Profit b/d | 2,500 |
| ,, Net Profit transferred to Capital A/c | 1,515 | ,, Interest | 10 |
| | | ,, Dividend | 200 |
| | 2,710 | | 2,710 |

**BALANCE SHEET**
*As on 31st December, 1978*

| | | Rs. | | Rs. |
|---|---|---|---|---|
| Sundry Creditors | | 1,400 | Cash in hand | 20 |
| Outstanding Expenses | | 120 | Cash at Bank | 1,000 |
| Capital ; | | | Debtors | 1,050 |
| Balance (1.1.78) | 3,980 | | Stock | 750 |
| *Less* ; Drawings | 1,195 | | Investments | 3,000 |
| | 2,785 | | | |
| *Add* ; Profit | 1,515 | | | |
| | | 4,300 | | |
| | | 5,820 | | 5,820 |

**Illustration 21-3**

Radha, who keeps his books by Single Entry instructs you to prepare a Profit & Loss Account of his business for the ending 31st December 1976 and a Balance Sheet as on that date.

On 1st January 1976, Radha had stock worth Rs. 54,000 ; Creditors on open accounts Rs. 48,000 : Debtors Rs. 1,20,000 : Business Premises Rs. 90,000 ; and Furniture Rs. 6,000.

Upon analysing his Cash Book for the year, you find the following :

| | Rs. | | Rs. |
|---|---|---|---|
| Bank Overdraft on 1st Jan, 1976 | 24,000 | Interest on Overdraft | 1,000 |
| Received from Debtors | 1,50,000 | Paid Salaries & Wages | 18,000 |
| Received from Cash Sales | 40,000 | Paid General Expenses | 1,500 |
| Paid to Creditors | 88,000 | Rent and Taxes | 2,400 |
| Paid for Cash Purchases | 24,000 | Drew for personal use | 2,000 |

A scrutiny of Personal Accounts showed that he had allowed Rs. 9,000 as discount and allowances to his debtors and had earned Rs. 6,000 as discount from his creditors. On 31st December 1976, he had Stock Rs. 80,000 ; Debtors Rs. 1,34,000 ; Bills Receivable Rs. 6,000 ; Creditors 40,000 ; Bills Payable Rs. 8,000 ; Business Premises Rs, 90,000 and Furniture Rs. 6,000. He also owed Rs. 800 for expenses.

You are to charge 5 percent depreciation on Furniture and premises, reserve Rs. 9,600 for doubtful debts and allow 5 per cent interest on Opening Capital.

**Solution**

TRADING AND PROFIT AND LOSS ACCOUNT
*For the year ended 31st December 1976*

| | | Rs. | | | Rs. |
|---|---|---|---|---|---|
| To Opening Stock | | 54,000 | By Total Sales | | |
| „ Total Purchases : | | | Credit | 1,79,000 | |
| Credit | 94,000 | | Cash | 40,000 | 2,19,000 |
| Cash | 24,000 | 1,18,000 | | | |
| „ Discount | | 9,000 | By Discount | | 6,000 |
| „ Salaries and Wages | | 18,000 | „ Closing Stock | | 80,000 |
| „ Rent and Rates | | 2,400 | | | |
| „ Interest on Overdraft | | 1,000 | | | |
| „ Sundry Expenses | | 800 | | | |
| „ General Expenses | | 1,500 | | | |
| „ Provision for Bad Debts | | 9,600 | | | |
| „ Depreciation on : | | | | | |
| Building | 4,500 | | | | |
| Furniture | 300 | 4,800 | | | |
| „ Interest on Capital at 5% on Rs. 1,98,000 | | 9,900 | | | |
| „ Net Profit | | 76,000 | | | |
| | | 3,05,000 | | | 3,05,000 |

BALANCE SHEET
*As on 31st December 1976*

| | | Rs. | | | Rs. |
|---|---|---|---|---|---|
| Bank Overdraft | | 24,000 | Cash in hand | | 53,100 |
| Bills Payable | | 8,000 | Bills Receivable | | 6,000 |
| Sundry Creditors | | 40,000 | Sundry Deborts | 1,34,000 | |
| Expenses Outstanding | | 800 | —Provision | 9,600 | 1,24,400 |
| Capital Account | | | Closing Stock | | 80,000 |
| Balance 1.1.76 | 1,98,000 | | Building | 90,000 | |
| +Interest | 9,900 | | —Depreciation | 4,500 | 85,500 |
| +Profit | 76,000 | | Furniture | 6,000 | |
| | 2,83,900 | | – Depreciation | 300 | 5,700 |
| —Drawings | 2,000 | 2,81,900 | | | |
| | | 3,54,700 | | | 3,54,700 |

**Working Notes**

While solving this problem, first we should find out :—

(*i*) Credit Sales, (*ii*) Credit Purchases,
(*iii*) Cash Balance, and (*iv*) Capital on 1-1-76

### SUNDRY DEBTORS (To find out Credit Sales)

| | Rs. | | Rs. |
|---|---|---|---|
| To Balance b/d | 1,20,000 | By Cash | 1,50,000 |
| ,, Sales | 1,79,000 | ,, Discount | 9,000 |
| | | ,, Bills Receivable | 6,000 |
| | | ,, Balance c/d | 1,34,000 |
| | 2,99,000 | | 2,99,000 |

### SUNDRY CREDITORS (To find out Credit Purchases)

| | Rs. | | Rs. |
|---|---|---|---|
| To Cash | 88,000 | By Balance b/d | 48,000 |
| ,, Discount | 6,000 | ,, Purchases | 94,000 |
| ,, Bills Payable | 8,000 | | |
| ,, Balance c/d | 40,000 | | |
| | 1,42,000 | | 1,42,000 |

### CASH ACCOUNT

| | Rs. | | Rs. |
|---|---|---|---|
| To Sales | 40,000 | By Purchases | 24,000 |
| To Sundry Debtors | 1,50,000 | ,, Salaries & Wages | 18,000 |
| | | ,, Rent & Rates | 2,400 |
| | | ,, Sundry Creditors | 88,000 |
| | | ,, Interest on Overdraft | 1,000 |
| | | ,, General Expenses | 1,500 |
| | | ,, Drawings | 2,000 |
| | | ,, Balance c/d | 53,100 |
| | 1,90,000 | | 1,90,000 |

### BALANCE SHEET
*As on 1st January 1976*

| | Rs. | | Rs. |
|---|---|---|---|
| Creditors | 48,000 | Stock | 54,000 |
| Bank Overdraft | 24,000 | Debtors | 1,20,000 |
| Capital | 1,98,000 | Building | 90,000 |
| | | Furniture | 6,000 |
| | 2,70,000 | | 2,70,000 |

**Standard Questions**

1. State the necessary steps that are required to be taken to convert Single entry books into Double entry books when all the subsidiary books are maintained ?

2. Explain in detail the steps taken to convert set a of books kept under Single Entry system into Double entry system.

*(S.S.C. Delhi 1979, 1980 & 1980 Comptt)*

**Practical**

1. The following information are given of an accounting year : Opening Creditors Rs. 15,000. Cash paid to Creditors Rs. 15,000. Return Outwards Rs. 1,000 and Closing Creditors Rs. 12,000.

Calculate Credit purchases during the year.

*(All India Hr. Sec. 1976 comptt.)*

Ans. Credit Purchases Rs. 13,000.

2. Creditors on 31st January 1979 were Rs. 15,000, Purchases on Credit were Rs. 30,000, Cash paid to Creditors during 1979 was Rs. 20,000, Returns Outwards (regarding Credit purchases) were Rs. 1,000 and the bills payable accepted during the year were Rs. 10,000. Find out the balance of Creditors at the end of 1979.

Ans. Creditors at the end Rs. 14,000.

3. Debtors at the beginning of the year were Rs. 30,000, Sales on credit during the year were Rs. 75,000, Cash received from the Debtors during the year was Rs. 35,000, Returns Inward (regarding Credit sales) were Rs. 5,000 and Bills Receivable drawn during the year were Rs. 25,000. Find out the balance of debtors at the end of the year, assuming that there were bad debts during the year Rs. 2.000.

Ans. Debtors at the end of the year were Rs. 38,000.

4. Cash sales of business in a year were Rs. 85,000, the cost of goods sold (including direct expenses were Rs. 97,000 and gross profit as shown by the Trading Account for the year was Rs. 1,29,000, Calculate Credit sales during the year.

*(All India H.S. Comptt. 75)*

Ans. Credit Sales Rs. 1,41,000.

5. From the following facts supplied by A, who keeps his books on Single Entry. You are required to calculate Credit Purchases and Total Purchases :

| | Rs. |
|---|---|
| Opening Balance of Bills Payable | 5,000 |
| Opening Balance of Creditors | 6,000 |
| Closing Balance of Bills Payable | 7,000 |
| Closing Balance of Creditors | 4,000 |

| | |
|---|---|
| Cash paid to Creditors during the Year | 30,200 |
| Bills Payable discharged during the Year | 8,900 |
| Returns Outwards | 1,200 |
| Cash Purchases | 25,800 |

**Ans.** (*i*) Credit Purchases Rs. 40,300

(*ii*) Total Purchases (Credit Purchases+Cash Purchases)

=Credit Purchases Rs. 40,300

+Cash Purchases 25,800

66,100

**Note.** : Prepare Bills Payable Account, balance of which comes to Rs. 10,900

**6.** From the following information, find out the Credit Sales and Credit Purchases for the year 1978 :

| | Rs. |
|---|---|
| Balance of Debtors on 1-1-1978 | 12,000 |
| Balance of Creditors on 1-1-1978 | 7,600 |
| Cash paid to Creditors | 20,000 |
| Discount allowed by them | 500 |
| Returns Inward | 5,000 |
| Returns Outward | 2,400 |
| Cash received from customers | 45,000 |
| Discount allowed to them | 3,000 |
| Bills received from customers | 17,000 |
| Bills accepted | 4,600 |
| Bad Debts | 1,500 |
| Bills Receivable dishonoured | 3,500 |
| Debtors on 31-12-1978 | 10,000 |
| Creditors on 31-12-1978 | 9,500 |

**Ans.** Credit Sales Rs. 66,000 and Credit purchases Rs. 29,400

(*Delhi Senior School Certificate Examination 1979*)

**7.** From the following prepare Total Debtors and Total Creditors account and find out Credit Sales and Credit Purchases : Cash Book analysis shows the following :

Received from Debtors Rs. 75,000, Paid to Creditors Rs. 44,000, Cash Purchases 12,500, Cash Sales 20,000, Discount Received Rs. 3,000, Discount Allowed Rs. 4,000, Further details available are :

| | *Creditors* | *Debtors* |
|---|---|---|
| Opening Balance | 24,000 | 60,000 |
| Closing Balance | 20,000 | 65,000 |
| Bills Receivable | — | 3,000 |
| Bills Payable | 4,000 | — |
| Bad Debts | — | 2,000 |

**Ans.** Credit Purchases Rs. 47,000, Credit Sales Rs 89,000.

8. A trader started his business on 1st January 1979 with a capital of Rs. 1,500 and kept only a Cash Book and personal ledger.

The analysis of his Cash Book showed the following information :

Received from Debtors Rs. 850 , Cash Sales Rs. 345 , Payment to Creditors 1,064, Other Expenses Rs. 125, Drawings Rs. 200 , Cash Purchases Rs. 350 , Furniture Purchased Rs. 20.

On 31st December 1979 his position was as follows :

Stock Rs. 560 , Debtors Rs. 630 , Creditors Rs. 378, Outstanding expenses Rs. 15 , Furniture Rs. 20.

Prepare his Profit and Loss Account for the year ending 31st December, 1979 and a Balance Sheet as on that date subject to following adjustments charge depreciation on furniture Rs. 2 and provide Rs. 50 for bad and doubtfut debts.

**Ans.** Credit Purchases Rs. 1,442, Credit Sales Rs. 1,480, Cash Balance Rs. 936 , G.P. Rs. 593 , N.P. Rs. 401 , Total of the Balance Sheet Rs. 2,094.

9. A trader keeps his books by Single Entry. On 1st January, 1970 his capital was Rs. 8,200 ; on 31st December, 1970, the analysis of his cash book was as follows :

| | Rs. | | Rs. |
|---|---|---|---|
| Received from Debtors | 6,300 | Bank Overdraft on 1-1-70 | 640 |
| Additional Capital | 200 | Paid to Creditors | 2,400 |
| | | General Expenses | 900 |
| | | Wages | 1,850 |
| | | Drawings | 300 |
| | | Cash in hand | 20 |
| | | Bank Balance | 390 |
| | 6,500 | | 6,500 |

On 1st January his position was as follows :

Debtors Rs. 5,300 ; Creditors Rs. 3,360 ; Stock Rs. 2,700 ; Plant and Machinery Rs. 3,000 ; Furniture Rs. 1,200.

On 31st December his position was as follows :

Debtors Rs. 800 ; Creditors 1,950 ; Stock 4,900 Plant and Machinery Rs. 3,000 ; Furniture Rs. 1,200 ;

Allow 5% interest on opening capital and prepare Balance Sheet on 31st December, 1970. Charge 7½% depreciation on Machinery and provide 7½% reserve for Bad and doubtful debts on Sundry Debtors and 5% reserve for discount.

**Ans.** Credit Sales Rs. 1,800 ; Credit Purchases Rs. 990 ; G.P. 1,160 ; N.L. Rs. 472 ; Total of Balance Sheet Rs. 9,988.

**10.** **Ram keeps his books by Single Entry. During the year 1975 he kept a Cash Book of which the following is an analysis :**

| | Rs. |
|---|---|
| Received from Sundry Debtors | 400 |
| Additional Capital introduced on 1-9-75 | 30 |
| Loan from Shyam @ 6% per annum 1-9-75 | 150 |
| Overdraft on 1-1-75 | 60 |
| Paid to Creditors | 270 |
| General Expenses | 90 |
| Salaries | 30 |
| Drawings | 40 |
| Balance at Bank on 31-12-75 | 90 |

The following balances existed on 1-1-75 : Sundry Debtors. Rs. 530 ; Sundry Creditors Rs. 150 ; Furniture Rs 250 : Stock Rs. 180.

The following balances existed on 31-12-75. Sundry Debtors Rs. 600 ; Sundry Creditors Rs. 190 : Furniture Rs. 250 ; Stock Rs. 260.

Depreciate furniture by 10% ; Provide half-year's interest on Shyam's Loan and allow interest on capital at 5% per annum.

Prepare Trading and Profit and Loss Account for the year ended 31st December, 1975 and Balance Sheet as on that date. Show your working also.

Ans. Credit Purchases Rs. 310 ; Credit Sales Rs. 470 ; Opening Capital Rs. 750 ; T.B. Rs. 1,590, G.P. Rs. 240 ; N.P. Rs. 52.50 ; Total of Balance Sheet Rs. 1,175.

Roshan Washing House is owned by Roshan Dhobi. He keeps his books on 'Single Entry'. He gives you the following information :

| | *Dec. 31, 1978* | *Dec. 31, 1979* |
|---|---|---|
| Furniture and Fittings | 5,000 | 6,000 |
| Stock of Materials | 3,000 | 1,000 |
| Sundry Debtors | 6,000 | 7,000 |
| Sundry Creditors | 2,000 | -- |
| Prepaid Expenses | — | 200 |
| Unpaid Expenses | 600 | 1,000 |
| Cash in hand | 1,100 | 300 |

Receipts and Payment during the year :

| | | Rs. |
|---|---|---|
| Receipts from Debtors | ... | 21,000 |
| Paid to Creditors | ... | 10,000 |
| Cartage | ... | 2,000 |
| Drawings | ... | 12,000 |

| | | |
|---|---|---|
| Sundry Expenses | ... | 16,000 |
| Furniture purchased for cash | ... | 1,000 |

Prepare a Trading and Profit and Loss Account for the year ended December 31, 1979 and a Balance Sheet after providing for Bad Debts at 10%. There was a considerable amount of Cash Sales.

**Ans.** Capital on 31-12-78 Rs. 12,500 ; Cash Sales Rs. 19,200; Credit Sales Rs. 22,000 ; Credit Purchases Rs. 8,000 ; G.P. Rs. 29,200 ; N.P. Rs. 12,300 ; B.S. Rs. 13,800.

12. Mr. Lal started business on 1st January 1975 with a Capital of Rs. 5,000. He did not keep any books of accounts beyond a Cash book, a summary of which for the year ended 31st December 1975 is given below :—

**Receipts** :—From Sundry Debtors Rs. 6,500 ; Cash sales Rs 3,500 ; Commissions Rs. 250.

**Payments** :—To Sundry Creditors Rs. 7,850 ; Cash Purchases Rs 4,500 ; Trade Expenses Rs. 1,250 ; Furniture Rs. 100 ; Relief Fund Rs. 50.

On 31st December 1975 the following further information relating to the year in question is available—Credit Sales Rs. 12,000 ; Credit Purchases Rs. 10,200 ; Expenses Owing Rs. 150 ; Expenses Prepaid Rs. 75.

Prepare a Profit and Loss Account for the year ended 31st December, 1975 and a Balance Sheet as on that date after providing 10% depreciation on Furniture and write off Rs. 500 as bad debts. The stock in hand on 31st December, 1975 was valued at Rs. 2,250.

**Ans.** G.P. Rs. 3,050, Net Profit Rs. 1,415 ; Total of B/S Rs. 8,915 ; Closing Debtors Rs. 5,500 ; Closing Creditors Rs. 2,350 ; Cash Balance Rs. 1,500.

13. Ram Prakash keeps his books on Single Entry System. From the following information provided by him, prepare a Trading and Profit & Loss Account for the year ended 31st December, 1979 and a Balance Sheet as on that date :

| | 31st Dec. 1978 | 31st Dec. 1979 |
|---|---|---|
| | Rs. | Rs. |
| Furniture | 10,000 | 12,000 |
| Stock of Goods-in-Trade | 6,000 | 2,000 |
| Sundry Debtors | 12,000 | 14,000 |
| Prepaid Expenses | — | 400 |
| Sundry Creditors | 4,000 | ? |
| Unpaid Expenses | 1,200 | 2,000 |
| Cash | 2,200 | 600 |

Receipts and Payments during the year were as follows :

| | Rs. |
|---|---|
| Receipts from Debtors | 4[illegible],000 |
| Paid to Creditors | 20,000 |
| Transportation-in | 4,000 |
| Drawings | 12,000 |
| Sundry Expenses | 14,000 |
| Furniture purchased | 2,000 |

**Other Informations :**

There were considerable amount of Cash Sales. Credit purchases during the year amounted to Rs. 23,000. Provide a provision for doubtful bebts to the extent of 10% on Debtors.

**Ans.** Credit sales Rs. 44,000 ; Creditors at the end Rs. 7,000 ; Cash Sales Rs. 8,400 ; Capital in the beginning Rs. 25,000, G.P. Rs. 21,400, P & L A/c (N.P.) Rs. 5,600 B.S. Total Rs. 27,600.

*(S.S.C. Delhi 1980)*